

***United States Court of Appeals  
for the Second Circuit***



**APPENDIX**





ORIGINAL

77-5034

**United States Court of Appeals**  
For the Second Circuit

*In re* APPLIED LOGIC CORPORATION.

*Bankrupt.*

NEW JERSEY NATIONAL BANK.

*Plaintiff-Appellant.*

*-against-*

DANIEL GUTTERMAN as Trustee of  
APPLIED LOGIC CORPORATION, Bankrupt.

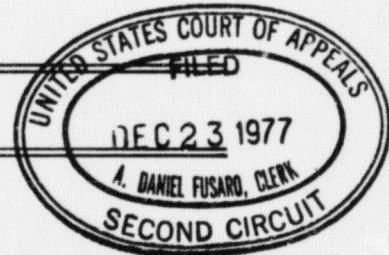
*Defendant-Appellee.*

*On appeal from the United States District Court  
for the Southern District of New York*

JOINT APPENDIX

VOLUME I

Pages A-1 to A-277



HAHN, HESSEN, MARGOLIS & RYAN  
Attorneys for Plaintiff-Appellant  
Office & P.O. Address  
350 Fifth Avenue  
New York, New York 10001  
Telephone (212) 736-1000

COUDERT BROTHERS  
Attorneys for Defendant-Appellee  
Office & P.O. Address  
200 Park Avenue  
New York, New York 10017  
Telephone (212) 973-3300

*Of Counsel:*

Michael S. Landes  
Gilbert Backenroth

PAGINATION AS IN ORIGINAL COPY



# TABLE OF CONTENTS

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <u>Page</u> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| Docket Entries .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | A-1         |
| Summons and Notice of Trial .....                                                                                                                                                                                                                                                                                                                                                                                                                                                            | A-18        |
| Complaint .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | A-20        |
| Schedule A - Promissory Note dated May 25, 1971<br>in amount of \$100,000 executed by<br>ALC in favor of New Jersey National<br>Bank, with attachments .....                                                                                                                                                                                                                                                                                                                                 | A-26        |
| Schedule B - Security Agreement dated May 25, 1971<br>between ALC and New Jersey National<br>Bank with attached schedules .....                                                                                                                                                                                                                                                                                                                                                              | A-31        |
| Schedule C - Financing Statement dated May 26, 1971<br>filed with the Secretary of State of<br>New Jersey; Financing Statement dated<br>May 26, 1971 filed with Clerks of<br>Mercer County and Somerset County;<br>Financing Statement dated June 30, 1971<br>filed with County Clerk of Montgomery<br>County, with attachments; Recapital-<br>ization Agreement dated 9/15/71 be-<br>tween ALC and other banks, with at-<br>tachments, denominated in the Com-<br>plaint as Exhibit C ..... | A-39        |
| Amended Answer with Counterclaims .....                                                                                                                                                                                                                                                                                                                                                                                                                                                      | A-83        |
| Exhibit A - Three Commercial Loan Department<br>Payments .....                                                                                                                                                                                                                                                                                                                                                                                                                               | A-91        |
| Exhibit B - Receipt dated 4/4/75 by New Jersey<br>National Bank .....                                                                                                                                                                                                                                                                                                                                                                                                                        | A-92        |
| Exhibit C - Debit Advice dated 4/1/75 from New<br>Jersey National Bank to ALC .....                                                                                                                                                                                                                                                                                                                                                                                                          | A-93        |
| Answer to Amended Counterclaims .....                                                                                                                                                                                                                                                                                                                                                                                                                                                        | A-94        |
| Transcripts of trials held before Bankruptcy Judge Herzog<br>on June 16, 1975 and July 24, 1975 .....                                                                                                                                                                                                                                                                                                                                                                                        | A-106       |
| Transcript of trial held before Bankruptcy Judge Babitt<br>on June 23, 1976 .....                                                                                                                                                                                                                                                                                                                                                                                                            | A-207       |

TABLE OF CONTENTS  
(Continued)

|                                                                                                                                                                                                         | <u>Page</u> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| Exhibits introduced in evidence at trials of<br>June 16, 1975 and July 24, 1975, and<br>June 23, 1976, and stipulated exhibits,<br>including the following:                                             |             |
| Plaintiff's Exhibits in Evidence:                                                                                                                                                                       |             |
| 1. Promissory Note dated May 25, 1971 in<br>amount of \$100,000 executed by ALC in<br>favor of New Jersey National Bank with<br>attachments (heretofore reproduced at<br>pages A-27 through A-30) ..... | A-376       |
| 2. Security Agreement dated May 25, 1971<br>between ALC and New Jersey National<br>Bank with attached schedule (heretofore<br>reproduced at pages A-32 through A-38) .....                              | A-376       |
| 3. Financing Statements filed June 1, 1977<br>by New Jersey National Bank against ALC<br>covering described collateral, with at-<br>tached Schedule A .....                                             | A-378       |
| 4. List showing purchases of certificates<br>of deposit by ALC .....                                                                                                                                    | A-390       |
| 5. Signature cards signed by officer of ALC<br>for Account held with New Jersey National<br>Bank .....                                                                                                  | A-392       |
| 6. Minutes of Board of Directors meeting of<br>ALC held on August 29, 1976 .....                                                                                                                        | A-393       |
| 7. Assignment of Savings Account to New Jersey<br>National Bank by ALC dated November 1, 1976 ....                                                                                                      | A-399       |
| Defendant's Exhibits in Evidence:                                                                                                                                                                       |             |
| A. Three commercial loan department payments,<br>dated 12/9/74, 12/3/74 and 12/31 from New<br>Jersey National Bank to ALC .....                                                                         | A-400       |
| B. Debit Advance dated 4/1/75 from New Jersey<br>National Bank to ALC .....                                                                                                                             | A-402       |



TABLE OF CONTENTS  
(Continued)

|                                                                                                                                                                     | <u>Page</u> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| C. Receipt dated 4/4/75, by New Jersey National Bank acknowledging receipt of cashiers check in amount of \$830.67 from ALC .....                                   | A-403       |
| D. 1970 and 1971 Agreements between ALC and other parties including New Jersey National Bank recapitalizing ALC debt, dated 9/20/70 and 9/15/71, respectively ..... | A-404       |
| E. Letter dated 3/3/72, New Jersey National Bank to ALC, directing current aging of accounts receivable to be sent each month to Credit Department .....            | A-437       |
| F. Letter dated 1/18/72 from ALC to New Jersey National Bank enclosing summary of accounts receivable aged as of 1/1/72 .....                                       | A-438       |
| Stipulated Exhibit - Computer printout of monthly aging of ALC accounts receivable covering period between 7/18/74 and 8/10/74 .....                                | A-439       |
| Order dated August 10, 1976 adjudicating debtor-in-possession bankrupt and appointing Daniel A. Gutterman as Trustee .....                                          | A-461       |
| Memorandum Opinion and Decision of Bankruptcy Judge Babitt dated December 9, 1976 .....                                                                             | A-463       |
| Order dated March 1, 1977 granting, in part, judgment for plaintiff and judgment for trustee on counter-claims .....                                                | A-479       |
| Notice of Appeal to District Court filed March 31, 1977 ..                                                                                                          | A-485       |
| Designation of Contents of Record on Appeal filed April 12, 1977 .....                                                                                              | A-487       |
| Opinion of District Court Judge Gerald L. Goettel dated October 14, 1977 .....                                                                                      | A-492       |
| Notice of Appeal to Second Circuit dated November 14, 1977 .....                                                                                                    | A-508       |

TABLE OF CONTENTS  
(Continued)

|                                | <u>Page</u> |
|--------------------------------|-------------|
| <u>Index to Witnesses</u>      |             |
| MICHAEL S. LYNCH:              |             |
| Direct (by Mr. Teich) .....    | A-107       |
| Cross (by Mr. Lebow) .....     | A-112       |
| Redirect (by Mr. Teich) .....  | A-117       |
| Recross (by Mr. Lebow) .....   | A-136       |
| Direct (by Mr. Robinson) ..... | A-341       |
| MARTIN T. MOBACH:              |             |
| Direct (by Mr. Lebow) .....    | A-139       |
| Cross (by Mr. Teich) .....     | A-168       |
| Cross (by Mr. Robinson) .....  | A-279       |

Index to Exhibits

| <u>Plaintiff's<br/>Ex. in Evid.</u> | <u>Description</u> (more fully described above)                                |       |
|-------------------------------------|--------------------------------------------------------------------------------|-------|
| 1                                   | Note .....                                                                     | A-109 |
| 2                                   | Security agreement .....                                                       | A-110 |
| 3                                   | Copies of UCC filings .....                                                    | A-110 |
| 4                                   | List showing purchases of C.D.'s by<br>the defendant .....                     | A-129 |
| 5                                   | Group of signature cards .....                                                 | A-174 |
| 6                                   | Copy of Minutes of board of directors<br>meeting held on August 29, 1972 ..... | A-296 |
| 7                                   | Document .....                                                                 | A-331 |
| <u>Defendant's<br/>Ex. in Evid.</u> |                                                                                |       |
| A                                   | Credit advices .....                                                           | A-115 |
| B                                   | Credit advice of bank as of 4/1/75 .....                                       | A-141 |



TABLE OF CONTENTS  
(Continued)

| <u>Defendant's<br/>Ex. in Evid.</u> |                                                             | <u>Page</u> |
|-------------------------------------|-------------------------------------------------------------|-------------|
| C                                   | Credit advice representing interest .....                   | A-141       |
| D                                   | Agreement dated 9/2/70 and agreement<br>dated 9/15/71 ..... | A-143       |
| E                                   | March 3, 1972 letter .....                                  | A-149       |
| F                                   | January 18, 1972 letter .....                               | A-149       |



DOCKET ENTRIES

(Pages A-2 through A-17m following)

|                                                                 |                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                   |                                                                              |                               |
|-----------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|-------------------------------|
| NAME OF BANKRUPT/DEBTOR<br><b>TAX I. D. NO. 210743492</b>       |                                                                                                                                                                                                                                       | DIST. NO.<br><b>208</b>                                                                                                                                                                                                                                                                                                           | DIV. NO.                                                                     | DOCKET NO.<br><b>75 B 491</b> |
| LAST<br><b>APPLIED LOGIC CORPORATION</b>                        | FIRST<br><b>ADJUDICATED: August 10, 1976</b>                                                                                                                                                                                          | MIDDLE                                                                                                                                                                                                                                                                                                                            | CHAPTER OR SECTION<br><b>XI-322</b><br>DATE PETITION FILED<br><b>3/27/75</b> |                               |
| ADDRESS OF BANKRUPT, DEBTOR OR FIDUCIARY<br><b>2 Penn Plaza</b> |                                                                                                                                                                                                                                       | CHECK ONE<br><input checked="" type="checkbox"/> Voluntary<br><input type="checkbox"/> Involuntary<br><input checked="" type="checkbox"/> Corporation<br><input type="checkbox"/> Partnership<br><input type="checkbox"/> Sole Proprietorship<br><input type="checkbox"/> Trust<br><input type="checkbox"/> Other (Specify) _____ |                                                                              |                               |
| CITY<br><b>New York</b>                                         | STATE<br><b>10001 New York</b>                                                                                                                                                                                                        | ZIP<br><b>NY</b>                                                                                                                                                                                                                                                                                                                  | RECEIVED BY<br><b>FOR CLERK 1/24/76</b>                                      |                               |
| NO ASSET CASES ONLY<br>CLAIMS AS SCHEDULED                      |                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                   |                                                                              |                               |
| ATTORNEY FOR BANKRUPT OR DEBTOR                                 | <b>Coudert Brothers, Pan American Bldg. 200 Park Ave. New York, NY</b><br><b>TELE: (212) 973-3300</b><br><b>10017</b>                                                                                                                 |                                                                                                                                                                                                                                                                                                                                   |                                                                              |                               |
| ATTORNEY FOR CREDITORS                                          |                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                   |                                                                              |                               |
| RECEIVER                                                        |                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                   |                                                                              |                               |
| ATTORNEY FOR RECEIVER                                           |                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                   |                                                                              |                               |
| TRUSTEE                                                         | <b>DANIEL A. GUTTERMAN</b><br><b>230 Park Avenue, N.Y.C.</b><br><b>(\$1,000.00 bond)</b>                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                   |                                                                              |                               |
| ATTORNEY FOR TRUSTEE                                            | <b>Otterbourg, Steindler, Houston &amp; Rosens, P.C.</b><br><b>230 Park Avenue, N.Y.C. tele# 679-1200</b>                                                                                                                             |                                                                                                                                                                                                                                                                                                                                   |                                                                              |                               |
| CHANGES OF PRINCIPALS                                           |                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                   |                                                                              |                               |
| DATE                                                            | PROCEEDINGS                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                   |                                                                              |                               |
| <b>3/27/75</b>                                                  | <b>Filed Petition under Chapter XI-322, Schedules, Summary of Assets and Liabilities, Executory Contracts, Statement of Affairs and Affidavit pursuant to Rule XI-2 (10) Largest Creditors. Referred to: BANKRUPTCY JUDGE HERZOG.</b> |                                                                                                                                                                                                                                                                                                                                   |                                                                              |                               |
| <b>3/27/75</b>                                                  | <b>Received from the Clerk of the Court the above papers.</b>                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                   |                                                                              |                               |
| <b>3/27/75</b>                                                  | <b>Order signed continuing the case to the next term of the court.</b><br><b>Certified copies of the order and the petition filed with the court.</b>                                                                                 |                                                                                                                                                                                                                                                                                                                                   |                                                                              |                               |



| DATE       | PROCEEDINGS                                                                                                                                                                                        |
|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2) 3/27/75 | Order signed authorizing DIP to retain firm of <u>Coudert Brothers</u> as its attorneys.                                                                                                           |
| 3/27/75    | MAILED <u>14</u> NOTICES OF RULE XI-4 H & C. Filed <u>11</u> AFFIDAVIT OF MAILING. RET. <u>4/3/75</u> at <u>9/4/75</u> O. 11:00                                                                    |
| 4/3/75     | Rule XI-4 held & adj. to FM date.                                                                                                                                                                  |
| 4/4/75     | FILED EPI FIRST MEETING WORKSHEET. HRG. <u>4/6/75</u> at <u>10:30</u>                                                                                                                              |
| 3) 4/21/75 | Order signed authorizing reimbursement of expenses to employees, etc. (4/18/75)                                                                                                                    |
| 4/21/75    | Mailed 108 notices of FM of creditors. Filed affidavit of mailing by EPI. (4/18/75)                                                                                                                |
| 4/30/75    | Filed s/c by Atty's for New Jersey Nat'l Bank, re: for an order authorizing debtor to pay monies owed, etc. RET: 6/16/75 at 2:00. Paid \$15.00 to the Clerk of the Court. Receipt #                |
| 4) 4/30/75 | Order signed authorizing debtor to proceed with an action in the Supreme Court of the State of NY against Deios Computer Services, Inc., etc/                                                      |
| 5) 4/30/75 | Filed OSC by Atty's for debtor: re: why DIP should not be permitted to reject the executory lease contract with Tishman Realty & Construction Co. for certain premises, etc. RET: 5/6/75 at 10:30. |
| 5/6/75     | FM Chap. XI, Adj. Rule XI-4, OSC to reject executory contract adj. to 5/29/75 at 11:30.                                                                                                            |
| 5/7/75     | Filed answer by Atty's for debtor, re: s/c filed 4/30/75. RET: 6/16/75 at 2:00.                                                                                                                    |

APPLIED LOGIC CORPORATION

75 B 491

LOCKET NUMBER

| DATE      | PROCEEDINGS                                                                                                                                                                                      |
|-----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5/15/75   | Filed s/c by Atty's for debtor, re: for an order authorizin Delos Computer Services, Inc. to t/o to debtor monies owed, etc. RET: 6/16/75 at 2:00. Paid \$15.00 to the Clerk of the Court. Cash  |
| 5/16/75   | Filed s/c by Atty's for Fidelity Management & Research, re: for an order authorizing debtor to t/o property to plaintiff, etc. RET: 5/29/75 at 11:30. Paid \$15.000 to the Clerk of the Court.   |
| 6 5/16/75 | Order signed shortening time for debtor to file answer to compalint filed by Fidelity Management & Research.                                                                                     |
| 5/16/75   | Filed s/c by Atty's for CIT Financial Services, Corp., re: for an order authorizing debtor to t/o property to plaintiff, etc. RET: 5/29/75 at 11:30. Paid \$15.00 to the Clerk of the Court.     |
| 7 5/16/75 | Order signed shortening time for debtror to file answer to complaint filed by CIT Financial Services Corp.                                                                                       |
| 5/16/75   | Filed s/c by Atty's for Fidelity Management & Research, re: for an order authorizing debtor to reduce the salary paid to Mr. Martin Mobach, President of the debtor, etc. RET: 5/29/75 at 11:30. |
| 8 5/16/75 | Order signed shortening the time for debtor to file answer to complaint filed by Fidelity Mangement & Research.                                                                                  |
| 5/22/75   | Filed answer by Atty's for New Jersey National Bank, re: s/c filed 4/20/75. RET: 6/16/75 at 2:00.                                                                                                |
| 5/22/75   | Filed affidavit of service by Atty's for debtor, re: s/c filed 5/15/75. RET: 6/16/75 at 2:00.                                                                                                    |
| 5/29/75   | Filed answer by Atty's for debtor, re: s/c filed 5/16/75. RET: 5/29/75 at 11:30.                                                                                                                 |
| 5/29/75   | Filed answer by Atty's for debtor, re: s.c filed 5/16/75. RET: 5/29/75 at 11:30.                                                                                                                 |



| DATE           | PROCEEDINGS                                                                                                                                                                                                                                                                                                                                     |
|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5/29/75        | AFM Chap. XI - Adj. Rule XI-4, Adj. proceeding - reclamation by Fidelity Management, adv. proceeding - reclamation by Fidelity, Adv. proceeding - reclamation by CIT Financial adj. to 6/20/75 at 10:00. Daniel A. Gutterman of 230 Park Avenue appointed Tentative Trustee & Cred. Comm., Adj. OSC to reject executory contract held & closed. |
| 5/30/75        | Filed s/c by Atty's for Firstmark Leasing Corp. with affidavit of service, re: for an order directing debtor to t/o property to plaintiff, etc. RET: 7/10/75 at 2:00. Paid \$15.00 to the Clerk of the Court.                                                                                                                                   |
| 9)5/30/75      | Order signed appointing the Creditor's Committee. (Barry M. Portnoy of 225 Franklin Street, Boston, Mass.)                                                                                                                                                                                                                                      |
| 10)6/2/75      | Order signed authorizing debtor's Atty's to pay on or before 5/20/75 for the Use & Occupation of premises, etc.<br>Order &                                                                                                                                                                                                                      |
| 6/12/75<br>11) | Filed/Stipulation between Atty's for Tishman Realty & Construction Co., Inc. & Atty's for debtor, re: Withdrawing motion dated 4/25/75 & amending lease dated 9/29/69, etc.                                                                                                                                                                     |
| 6/17/75<br>12) | Order signed authorizing Cred. Comm to employ & appoint Barry M. Portnoy & the law firm of Sullivan & Worcester as its atty. (6/16/75)                                                                                                                                                                                                          |
| 6/16/75        | Reclamation by N.J. National Bank, held I adj. to 6/20/75 at 10:30. Adv. proceeding - t/o v. Delos Services, Inc. Withdrawn.                                                                                                                                                                                                                    |
| 6/16/75        | Filed order of Stipulation between Atty's for debtor & Atty's for Delos Computer Services, Inc., re: dismissing adversary proceeding, etc.                                                                                                                                                                                                      |
| 6/20/75        | AFM - Adj. XI-4, Adj. Adv. proceed., Reclamation by Fidelity Adj. adv. proc., by CIT Financial adj. to 7/2/75 at 10:00. Adj. adv. Reclamation by New Jersey Nat'l Bank adj. to 7/24/75 at 10:00.                                                                                                                                                |
| 6/23/75<br>13) | Order signed electing Samuel Shapiro as member of Cred. Comm. in place of Joseph A. Campaigne, etc.                                                                                                                                                                                                                                             |
| 6-19-75        | Filed n/m by Creditor's Committee, re: for an order directing Debtor to hold certain funds in escrow for benefit of Creditors. Ret: 6-20-75.                                                                                                                                                                                                    |

BEST COPY AVAILABLE

APPLIED LOGIC CORPORATION

75 B 491

DOCKET NUMBER

5L

| DATE    | PROCEEDINGS                                                                                                                                                                                                                  |
|---------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 14      | 6/27/75 Order signed appointing Leon I. Radin & Co. as Accountants & fixing compensation.                                                                                                                                    |
| 7/2/75  | AFM - Adj. XI-4, adj. adv. proc. reclamation by Fidelity, adj. adv. proc. reclamation by CIT, adj. adv. proc., reclamation by Fidelity, adj. to 7/23/75 at 11:00.                                                            |
| 7/10/75 | Reclamation by Firstmark Leasing Corp. adj. to <u>7/23/75 at 11:00.</u>                                                                                                                                                      |
| 7/14/75 | Filed application for services rendered by Accountants for debtor.                                                                                                                                                           |
| 15      | 7/11/75 Order signed authorizing payment to Accountants, etc.                                                                                                                                                                |
| 7/24/75 | Adj. reclamation by New Jersey Nat'l Bank held & adj. to <u>9/9/75 at 10:00.</u>                                                                                                                                             |
| 8/19/75 | Filed s/c by atty's for American Used Computer Corp. with affidavit of service, re: for an order directing debtor to surrender certain equipment to plaintiff. RET: 9/18/75 at 2:30. Paid \$15.00 to the Clerk of the Court. |
| 8/21/75 | Filed answer by Atty's for debtor with affidavit of service, re: s/c filed 8/19/75. RET: 9/18/75 at 2:30.                                                                                                                    |
| 7/28/75 | AFM, adj. XI-4<br>Reclamation of: Fidelity<br>" " " CIT<br>" " " Firstmark Leasing Corp. <u>held &amp; adj. to 9/29/75 at 11:00.</u>                                                                                         |
| 9/17/75 | Filed notice to take deposition of HP. Ret. 10/14/75 at 2:30 at office of Weil, Gotshal & Manges, etc                                                                                                                        |
| 9/19/75 | Filed request by atty. for American Used Computer Corp. for production of documents, etc.                                                                                                                                    |
| 9/18/75 | Adj. reclamation (American Used Computer Corp) adj. to <u>11/19/75 at 2:30.</u>                                                                                                                                              |
| 9/19/75 | Adj. reclamation (N.J. Nat'l Bank) adj. to <u>11/14/75 at 2:00.</u>                                                                                                                                                          |
| 9/29/75 | AFM, adj. XI-4 <u>held &amp; adj. to 10/23/75 at 10:00.</u><br>Adj. reclamation of Fidelity<br>" " " CIT<br>" " " Firstmark leasing adj. to <u>10/23/75 at 10:00.</u>                                                        |



| DATE          | PROCEEDINGS                                                                                                                                                                                                                                |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10/20/75      | Filed Debtor <u>PLAN OF ARRANGMENT</u> . Copy sent to Secretary of Treasury.                                                                                                                                                               |
| 11/3/75       | Filed notice of motion and affidavit of service by attys for American Used Computer Corp. to strike the answer filed in adversary proceeding and for judgment by default against debtor. Returnable: <u>11/19/75 at 11:00AM</u>            |
| 11/19/75      | Motion to strike answer & render judgment by default (American Used Computer Corp)<br>Adj. adversary proceeding reclamation held and adj. to <u>12/2/75 at 11:30AM.</u>                                                                    |
| 12/2/75       | Adj. Motion to reject <u>HELD AND CLOSED. ORDER ENTERED.</u><br>Adj. Motion re: Escrow funds<br>Adj. Reclamation Proceedings (Various)<br>Adj. Mtn. to strike answer<br>Adj. First Mtg.; Adj. X1-4 <u>held and adj. to 12/17/75 11:30.</u> |
| 16) 12/3/75   | Order signed by Judge Babitt on 12/3/75 directing DIP to t/o certain property to Firstmark Leasing Corp.<br>Order approving                                                                                                                |
| 17) 12/18/75  | Signed 12/17/75 by Judge Babitt, /compromise and settlement between DIP and American Used Computer Corp.                                                                                                                                   |
| 1/6/76        | Filed N/M with aff. of service, re.: objection to Claims: 59, 81 and 87 and motion for summary judgment, etc., ret. 1/14/76 at 1 PM                                                                                                        |
| 1/6/76        | Filed debtor's statement pursuant to rule 9(G) in support motion for summary judgment etc., ret. 1/14/76 at 1PM                                                                                                                            |
| 12/2/75       | 125 envelopes picked up by attorneys for mailing of Plan of Arrangement                                                                                                                                                                    |
| 1/9/76        | mailed (127) notices of Hearing on PLAN. GK affidavit of mailing. ret: (1/21/76)                                                                                                                                                           |
| 1/14/76       | Objection to claim Held & adj. to 1/22/76 at 1:00.                                                                                                                                                                                         |
| 17<br>1/20/76 | received from clerk of court Judge David N. Edelstein U.S.D.J. order authorizing Hon. Roy Babitt to retain jurisdiction of this proceeding etc.                                                                                            |

## APPLIED LOGIC CORPORATION

75 B 491

BB

DOCKET NUMBER

JL

| DATE        | PROCEEDINGS                                                                                                                                                                                    |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 18) 1/22/76 | Order signed (1/21) authorizing DIP to borrow up to certain sums of money from Martin T. Mobach on the security of accounts receivable.                                                        |
| 1/22/76     | Filed memorandum of Law by attys. for the state of New Jersey, Department of the Treasury, Division of Taxation. re, Objections to claims. Ret: 1/28/76 at 2:00.                               |
| 1/21/76     | A.F.M; Adj. Rule X1-4; Adj. Conf; Adj. S/C for reclamation by Fidelity & City Financial; Adj. S/C for reclamation by J.J. National Bank Held & Adj. to 1/28/76 at 1:00.                        |
| 1/28/76     | A.F.M; Plan Accepted; Adj. X1-4; Adj. Conf; Adj. S/C for reclamation (Fidelity & City Financial); Adj. S/C reclamation (N.J. National Bank; Held & Adj. to 3/9/76 at 11:00.                    |
| 1/28/76     | Adj. motion objecting to claims Held & closed.                                                                                                                                                 |
| 1/28/76     | Filed affidavit of service on acceptance of plan of arrangement by attys. for debtors.                                                                                                         |
| 2/6/76      | Filed notice by attys. for debtor with affidavit of service. re, for a hearing objecting to allowance of certain claims. Ret: 2/24/76 at 10:00.                                                |
| 2/19/76     | Filed letter by N.Y Dept. of Taxation and Finance. re, Withdrawal of claim filed 5/14/75.                                                                                                      |
| 19) 2/20/76 | Stipulation signed between attys. for DIP and atty General of N.J..re, expunging certain claims.                                                                                               |
| 2/24/76     | Objections to claims Held & Adj. to 3/9/76 at 11:00.                                                                                                                                           |
| 20) 2/27/76 | Order signed (2/26) finding plan accepted and closing First Meeting and appointing Marilyn Simon of 500 E. 77th St., N.Y. as disbursing Agent under \$1,000.00 Bond. Copy sent to distributor. |
| 21) 2/27/76 | Order signed (2/20) expunging, reducing and consolidating certain claims. Copy sent to distributor.                                                                                            |
| 3/5/76      | Filed notice of Entry with affidavit of service by attys. for DIP. PE, ORDER SIGNED 2/27/76.                                                                                                   |



| DATE        | PROCEEDINGS                                                                                                                                                                                                                                                                                                    |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3/4/76      | Filed affidavit in opposition by Applicant Incorporated. re, Notice filed 2/6/76. Ret: 3/9/76 at 11:00.                                                                                                                                                                                                        |
| 3/9/76      | Adj. XI-4 ; Adj. Conf.; Adj. S/C re, reclamation of (Fidelity; CIT Financial; Adj. objection to claims; Adj. S/C of (1st Natl Bank) Held & Adj. to 3/26/76 at 10:00.<br>Motion to adjourn objection to claims of CRC and Dynatrend Held & Closed. Adj. S/C of (Firstmash Leasing) Held & Closed. DISCONTINUED. |
| 3/10/76     | Filed answer by attvs. for CRC Group, Inc. with affidavit of service. re, motion to adjourn objection to to claims.                                                                                                                                                                                            |
| 22) 3/17/76 | Order signed 3/16/76 expunging, reducing & consolidating certain claims.                                                                                                                                                                                                                                       |
| 3/19/76     | Filed notice of entry with affidavit of service by attys for DIP. re, Order signed 3/16/76.                                                                                                                                                                                                                    |
| 23) 3/24/76 | Order signed (3/23/76) amending Stipulation signed 2/20/76. etc.                                                                                                                                                                                                                                               |
| 3/26/76     | Adj. XI-4; Adj. Conf.; Adj. Objections to claims; Adj. S/C of (N.J. National Bank); Adj. S/C re, reclamation of (Fidelity; CIT Financial) Adj. to 4/26/76 at 8:30.                                                                                                                                             |
| 4/26/76     | Adj. XI-4; Adj. Conf.; Adj. S/C of (City Financial); Adj. objections to claims; Adj. S/C of (N.J. National Bank) Held & Adj. to 5/12/76 at 12:00.                                                                                                                                                              |
| 5/12/76     | Adj. XI-4; Adj. Conf. Adj. objections to claims; Adj. S/C of (N.J. National Bank); Adj. S/C of Cit Financial) Held & Adj. to 6/23/76 and 6/24/76 at 8:30 ALL DAY (Both Days).                                                                                                                                  |
| 5/18/76     | Filed N/M with affidavit of service by attys for DIP Re: for an order amending answer to include counterclaim, etc. Ret: 5/27/76 at 10:00.                                                                                                                                                                     |
| 5/27/76     | Mtn to amend answer held & CLOSED... MEMO ENDORSED.                                                                                                                                                                                                                                                            |
| 24) 5/28/76 | MEMO ENDORSED... THIS MOTION IS GRANTED ON DEFAULT. SETTLE AN ORDER ON NOTICE.                                                                                                                                                                                                                                 |
| 25) 6-10-76 | Order signed (6-9) permitting the Debtor to file an amended answer with an additional counterclaim, etc.                                                                                                                                                                                                       |

## APPLIED LOGIC CORPORATION

75 B 491 RB

DOCKET NUMBER

| DATE        | PROCEEDINGS                                                                                                                                                                                                                                |
|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6-14-76     | Filed amended answer & counterclaims by Attys. for Debtor, with affidavit of service, re: S/C dated 4-30-75 of N.J. National Bank. Ret: 6-23-76 & 6-24-76 at 8:30.                                                                         |
| 6-14-76     | Filed notice of entry by Attys. for Debtor, with affidavit of service, re: S/C dated 4-30-75 of N.J. National Bank. Ret: 6-23-76 & 6-24-76 at 8:30.                                                                                        |
| 6-22-76     | Attys. for<br>Filed answer by New Jersey National Bank, with affidavit of service, re: amended counterclaims, etc. Ret: 6-23-76 & 6-24-76 at 8:30.                                                                                         |
| 6-23-76     | Adj. X1-4 hearing; Adj. Conf. : Adj. objections to claims - held & adj. to 8-3-76 at 10:30.<br>Adj. S/C (New Jersey National Bank) - tried in part & adj. to 6-24-76 at 8:30.<br>Adj. S/C (City Financial) held & adj. to 8-3-76 at 10:30. |
| 6-24-76     | Adj. objections to claims; Adj. S/C (New Jersey National Bank) ; Adj. S/C (City Financial) - held & closed. DECISION RESERVED.                                                                                                             |
| 7-7-76      | Filed n/m by Attys. for Debtor, with affidavit of service, re: for an order compromising controversy, etc. Ret: 7-13-76 at 10:00.                                                                                                          |
| 7-13-76     | n/m to approve controversy - held & closed. See memo endorsed...MOTION GRANTED. NO OPPOSITION. SUBMIT ORDER.                                                                                                                               |
| 26) 7-14-76 | Order signed authorizing Debtor to settle & compromise the claim against Computer Dynamics Inc., etc.                                                                                                                                      |
| 8-3-76      | Filed minutes re: hearing of<br><u>April 25, 1976</u> .                                                                                                                                                                                    |
| 8-3-76      | Adj. X1-4 ; Adj. Conf. - Adj. objections to claims - Adj. S/C (City Financial) - adj. to 8-9-76 at 11:00.                                                                                                                                  |
| 8-9-76      | Adj. Rule X1-4 - Adj. Conf. - held & closed. ADJUDICATED.<br>Adj. obj. to claims - Adj. S/C (Cit. Financial) - Adj. S/C (Fid. Mortgage & Research) - x'am of Prin. of Bankrupt - held & adj. to 10-5-76 at 12:30.                          |
| 27) 8-11-76 | Order of ADJUDICATION signed (8-10) & appointing Daniel A. Gutterman of 230 Park Ave., N.Y.C. as Trustee under \$1,000.00 bond. Cert. copies sent to Secy. of Treasury, Trustee & Commissioner of Internal Revenue.                        |



| DATE        | PROCEEDINGS                                                                                                                                                                                                                                |
|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 28) 8-11-76 | Order signed directing Bankrupt to file List of Unpaid Obligations, etc. True copies sent to Attys. for Bankrupt & Pres. of Company.                                                                                                       |
| 8-13-76     | Filed Trustee's bond.                                                                                                                                                                                                                      |
| 29) 8-13-76 | Order signed approving Trustee's bond. Three true copies sent to Trustee                                                                                                                                                                   |
| 30) 9-7-76  | Order signed authorizing the Trustee to engage Otterbourg, Steinwiler, Houston & Rosen, P.C. as his Attorneys.                                                                                                                             |
| 9-7-76      | Mailed 109 notices of Adjudication, filed RP affidavit of mailing.                                                                                                                                                                         |
| 31) 9-7-76  | Order signed appointing David Strauss & Co., as Appraiser, fixing - compensation & directing the Trustee to sell the physical assets of the Bankrupt, etc. Copies sent to Appraiser & Underwriters.                                        |
| 9-8-76      | Filed minutes re: hearing of<br><u>May 12, 1976</u>                                                                                                                                                                                        |
| 32) 9-10-76 | OSC signed, re: Why the Trustee should not be authorized to accept the offer of International Computer Services, Inc. to purchase the Trustee's rights, title & interest, etc. Ret: 9-16-76 at 9:00.                                       |
| 9-17-76     | Filed Application for Allowance to Appraiser.                                                                                                                                                                                              |
| 9-17-76     | Filed Appraiser's Oath & Appraisal.                                                                                                                                                                                                        |
| 9-16-76     | OSC to accept offer of International Computer Services, Inc. - held & Closed. See memo endorsed...OFFER OF \$40,000.00 BEING THE BEST BID AT AUCTION IS ACCEPTED & THE TRUSTEE'S APPLICATION IS GRANTED. SUBMIT ORDER.                     |
| 9-20-76     | Filed S/C by Attys. for Midlantic National Bank, re: for a judgment authorizing the MNB to join the Trustee in an action to foreclose certain leasehold mortgage in the Superior Court of N.J., etc. Ret: 10-26-76 at 10:00. Fee not paid. |
| 9-23-76     | Filed minutes re: hearing of<br><u>August 9, 1976</u>                                                                                                                                                                                      |
| 33) 9-23-76 | Stipulation signed (9-21) between Attys. for Trustee & Attys. for Fidelity Management & Research Co., re: permitting Fidelity to reclaim its equipment subject to the leases entered into by & between Fidelity & ALC, etc.                |



APPLIED LOGIC CORPORATION

75 B 491

RB

DOCKET NUMBER

| DATE     | PROCEEDINGS                                                                                                                                                                                                                                                                                                     |
|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 34)      | 9-24-76 Order signed (9-23) authorizing Trustee to accept the offer of International Computer Services, Inc. & directing ICS to pay to the Trustee certain sums of money for certain assets, etc.                                                                                                               |
| 9-27-76  | Filed affidavit of service by Attys. for Midlantic National Bank, re: S/C filed 9-20-76 . Ret: 10-26-76 at 10:00. Paid \$15.00 to the Clerk of the Court.                                                                                                                                                       |
| 9-30-76  | Filed in duplicate post-trial memorandum by Attys. for New Jersey National Bank, re: for an order granting S/C filed by N.J. Nat'l Bk., etc.                                                                                                                                                                    |
| 10-5-76  | Adj. obj. to claims - Adj. S/C (City Financial) Exam. of Bankrupt - held & adj. to 11-11-76 at 10:00.                                                                                                                                                                                                           |
| 35)      | 10-13-76 Order signed that no appraiser be appointed & directing Trustee to sell the physical assets of the Bankrupt at public auction by Underwriters Salvage Co., etc. Copy sent to Trustee & Underwriters Sal. Co.                                                                                           |
| 36)      | 10-13-76 Order signed that no appraiser be appointed & directing the Trustee to sell the physical assets of the Bankrupt, at public auction by Underwriters Salvage Co., etc. Copy sent to Trustee & Underwriters.                                                                                              |
| 37)      | 10-21-76 Order signed appointing Bernard Reuben, 369 East 149th St. Bronx, N.Y. to appraise real estate located at 1200 State Road, Princeton, N.Y. & also authorizing trustee to enter into purchase option agreement for bankrupts leasehold interest. Copy of order mailed to appraiser & to trustees attys. |
| 38)      | 10-26-76 Stipulation signed between Attys. for Trustee & Attys. for Midlantic National Bank, re: modifying the automatic stay against the commencement of lawsuit, to permit the Bank to institute foreclosure proceedings with respect to the premises in the Superior Court of N.J., etc.                     |
| 10-26-76 | S/C by Midatlantic Natl Bank for judgment - held & closed...DISCONTINUED.                                                                                                                                                                                                                                       |
| 11-11-76 | Adj. obj. to claims - Adj. S/C (City Financial) - Adj. exam. of bankrupt - adj. to 12-13-76 at 11:00.                                                                                                                                                                                                           |
| 11-23-76 | Filed Appraiser's Application for Allowance.                                                                                                                                                                                                                                                                    |
| 11-23-76 | Filed Appraiser's Oath & Appraisal.                                                                                                                                                                                                                                                                             |
| 12-7-76  | Filed minutes re: hearing of <u>September 16, 1976</u> .                                                                                                                                                                                                                                                        |



| DATE         | PROCEEDINGS                                                                                                                                                                                                                                       |
|--------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 12-9-76      | Filed Bankruptcy Judge's DECISION, re: in dispute with New Jersey Nat'l Bank against Bankrupt - - Set off denied on equitable grounds - dealing with Trusts.                                                                                      |
| 12-13-76     | Adj. obj. to claims - Adj. S/C (City Financial) - Adj. exam. of Bankrupt - adj. to 1-20-77 at 9:00.                                                                                                                                               |
| 39) 12-20-76 | Order signed authorizing the Trustee to pay certain sums of money to Tishman, the landlord of premises occupied by the Bankrupt, etc.                                                                                                             |
| 40) 12-21-76 | Order signed (12-20) authorizing the Trustee to accept the offer of David Tortora to purchase the Trustee's right, title & interest in & to certain physical assets, etc.                                                                         |
| 12-27-76     | Filed Application for Compensation by Counsel for Creditors' Committee for services rendered during Chapter XI proceedings.                                                                                                                       |
| 41) 12-27-76 | Order signed (12-23) authorizing Trustee to abandon his right, title & interest in & to the physical assets formerly occupied by the Bankrupt, to the landlord, McArthur Boulevard Associates, etc.                                               |
| 1/20/77      | Adj. obj. to claims - held & adj. to 2/7/77 at 11:00.<br>Adj. exam of bankrupt<br>Adj. S/C ( City Financial)<br>Adj. S/C ( Fidelity)- held & closed- discontinued                                                                                 |
| 1/27/77      | Filed notice of appearance by attorneys for New Jersey Nation Bank (Hahn, Wassen, Margolis & Ryan)                                                                                                                                                |
| 2/7/77       | adj obj to claims adj 2/25 at 11:00                                                                                                                                                                                                               |
| 42) 2/7/77   | Order signed authorizing Trustee to retain the firm of Goudert Brothers as special counsel for (Deloitte Computer Service and Maintenance, National Bank)                                                                                         |
| 2/25/77      | Adj. obj. to claims adj. to                                                                                                                                                                                                                       |
| 43) 3/1/77   | Order signed granting mtn filed by Attys for New Jersey Nat'l Bank, for a judgement against the trustee, pursuant to Bankruptcy Rule 712 to the extent and in the amount of \$40,000.00 from the debtor-bankrupt assets sold by the trustee, etc. |
| 3/1/77       | Filed unsigned order, re: dismissing the mtn of New Jersey Nat'l Bank, etc.                                                                                                                                                                       |
| 3/1/77       | Filed unsigned order re: granting mtn of New Jersey Nat'l Bank, etc.                                                                                                                                                                              |
| 3/2/77       | Filed minutes re: hearing of<br><del>2/2/77</del> adj -                                                                                                                                                                                           |



APPLIED LOGIC CORPORATION

75 B 491 TJ.

DOCKET NUMBER

| DATE        | PROCEEDINGS                                                                                                                                                            |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3/4/77      | Filed notice of entry, re: order signed by Judge Rabitt #43 New Jersey National Bank. Affidavit of service attached                                                    |
| 3/3/77      | Filed s/c, re: for an order directing Trustee to t/o property to Martin T. Mohach (International Computer Services, Inc.). Paid \$15.00 Clerk of Court. Ret: 4/7 10:30 |
| 3/3/77      | Filed affidavit of service, re: s/c dated 3/3/77 Martin T. Mohach. Ret: 4/7 at 10:30                                                                                   |
| 44) 3/14/77 | Order signed (3/11) extending time for the New Jersey Nat'l Bank to file notice of appeal until 3/31/77.                                                               |
| 3/18/77     | Filed n/m, re: for an order settling settling Trustee's controversy with Delos Computer Services, Inc. Affidavit of service attached. Ret: 4/7 at 10:30                |
| 3/30/77     | Filed minutes re: <u>1/2/77 adj. of Delos s/c</u>                                                                                                                      |
| 4/1/77      | Filed ( 3/31) Notice of Appeal by Attys for N.J. Nat'l Bank, re: order dated March 1, 1977. Filed receipt #085183.                                                     |



EX I.D.# 210743492

208

75 B 191

A-15

APPLIED LOGIC CORPORATION  
CHANGE OF STATUS 8/10/76  
FROM CHAP. XI TO CHAP. 4

ADDRESS OF BANKRUPT/DEBTOR (Number and Street)

2 PENN PLAZA

CITY

NEW YORK

ZONE

COUNTY

NEW YORK

STATE

N.Y.

CHAPTER OR SECTION

XI-322

DATE PETITION FILED

3/27/75

DATE CLOSED

DIS-  
CHARGE

Granted

Denied

Waived

(Check  
one)

DATE DISCHARGED

PETITION  
DISMISSED?☐ YES

DATE DISMISSED

NAME OF DISTRICT JUDGE

NAME OF BANKRUPTCY JUDGE

JOEL LEWITTES

☒ Voluntary  
☐ Involuntary  
☒ Corporation  
☐ Former  
☐ Employee  
☐ Professional  
☐ Other (Non-business)  
☐ Merchant  
☐ Manufacturer  
☒ Other (Business)  
CHAPTER UNDER WHICH  
CASE WAS PENDING WHEN  
DISMISSED

ATTORNEY  
FOR BANK-  
RUPT OR  
DEBTOR

NAMES AND ADDRESSES

COUDERT BROTHERS, PAN AMERICAN BLDG.

200 PARK AVE. NEW YORK, N.Y. 10017 973-3300

ATTORNEY  
FOR PETI-  
TIONING  
CREDITORS

RECEIVER

ATTORNEY  
FOR  
RECEIVER

TRUSTEE

ATTORNEY  
FOR  
TRUSTEE

CHANGES OF PRINCIPAL

DATE

PROCEEDINGS

3/27/75

Filed Petition under Chapter XI-322, Schedules Summary  
of Assets & Liabilities, Executory Contracts, Statement  
of Affairs & Affidavit pursuant to Rule XI-2 (10) Largest  
Creditors. Referred to Bkcy. Judge Lewittes.

8/10/76

Report of Bankruptcy Case Change.

03-31-77

Filed NOTICE OF APPEAL to the U.S.D.C. by New Jersey  
National Bank from the Order of Bkcy. Judge dated 03-31-77.  
Ret. 06-14-77 (77 Civ. 1548)

03-31-77

Filed Designation of Contents of the Record on Appeal,  
by N.J. National Bank. (77 Civ. 1548)

FORM BK 74-D  
AUG. 1974UNITED STATES DISTRICT COURTS  
BANKRUPTCY DOCKET—COPY☒ CHECK THIS BOX IF FILING FEES WERE  
PAID IN FULL AT THE TIME OF FILING

Clerk of the Court



- 04-21-77 Filed Notice of Motion for an Order Dismissing the Appeal by N.J. National Bank. Ret. 05-13-77 at 2:15 P.M.
- 04-27-77 Filed Victor C. Murphys' Affidvt. in Support of Motion to Dismiss the Appeal.
- 05-11-77 Filed Richard N. Tilton's Affidvt. in Opposition of Motion to Dismiss Appeal.
- 5/12/77 Filed REPLY AFFIDAVIT, to the two affidavits opposing the trustee's motion for an order dismissing the above-captioned appeal. F..
- 5/18/77 Filed Richard N. Tilton's SUPPLEMENTAL AFFIDAVIT, with a true copy of the docket attached.
- 5/18/77 Filed STIPULATION that the time for filing & service of briefs in Bkcy. Rule 808, it is further stipulated that date for oral argument of the appeal shall be adj. to a date at least 40 days after the entry of a final order with respect to appellee's motion to dismiss appeal, to wit 7/12/77 at 10:30 A.M. room 506. So ordered Stewart, J. dated 5/17/77.
- 5/18/77 Filed MEMO ENDORSED, Motion denied for the reason stated in my oral opinion of today's date. So ordered Stewart, J. dated 5/17/77. Copy to Bkcy. Judge.
- 6/6/77 Filed STIPULATION, for filing briefs Appellant's filed on or before 6/17/77-Appellee on or before 7/5/77. The reply to appellee's brief served & filed on or before 7/11/77. So ordered Owen, J. dated 5/31/77.
- 6/20/77 Filed MEMORANDUM OF POINTS & Authorities on behalf of New Jersey National Bank. Sub. by Hahn, Hessen, Margolis & Ryan. (77 Civ 1548)
- 07-05-77 Filed Stip. and Order that the appellee's brief is to be filed by 07-12-77, reply to appellee's brief is to be filed by 07-18-77 and the argument on appeal shall be heard on 08-02-77 at 10:30 a.m. So Ordered. OWEN J. 06-30-77.
- 7/13/77 Filed MEMORANDUM OF APPELLEE Daniel Gutterman, as Trustee in Bkcy. of Applied Logic Corp. Sub. by Coudert Brothers. (77 Civ 1548)
- 7/19/77 Filed Reply Memorandum of Points & Authorities on behalf of New Jersey National Bank. Sub. by Hahn, Hessen, Margolis and Ryan.
- 08-18-77 Filed transcript of record of proceedings dated 05-17-77.
- 10-14-77 Filed OPINION #46445...The Opinion and Order of Judge Babitt are in All Respects Affirmed. So Ordered, Goettel J. 10-14-77. (77 Civ. 1548) m/h

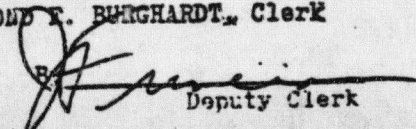
B



| DATE     | PROCEEDINGS                                                                                                               |
|----------|---------------------------------------------------------------------------------------------------------------------------|
| 11-14-77 | Filed Notice of Appeal to the U.S.C.A. second circuit from the Opinion of Judge Gastell dtd 10-14-77 of the U.S.D.C. m/n/ |

BANKRUPTCY DOCKET-CONTINUATION

RAYMOND E. BURGHARDT, Clerk

  
Deputy Clerk

| NAME OF BANKRUPT/DEBTOR<br><b>APPLIED LOGIC CORP.</b> |                                                                                                                            | DOCKET NO.<br><b>75 B 491 -ASH</b>            |         |
|-------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|---------|
| CLAIM NO.                                             | NAME AND ADDRESS OF CLAIMANT<br>(and name and address of attorney, if any)                                                 | AMOUNT OF CLAIMS FILED AND ALLOWED            | REMARKS |
| 1                                                     | DATE FILED: <b>4-11-75</b><br><b>Carterfone Communications Corp.</b><br><b>2639 Walnut Hill St.,</b><br><b>Dallas, Tx.</b> | FILED<br>\$ <b>80.00</b><br>ALLOWED<br>\$     |         |
| 2                                                     | DATE FILED:<br><b>Carterfone Communications Corp.</b><br><b>2639 Walnut Hill St.,</b><br><b>Dallas, Tx.</b>                | FILED<br>\$ <b>80.00</b> --<br>ALLOWED<br>\$  |         |
| 3                                                     | DATE FILED:<br><b>Carterfone Communications Corp.</b><br><b>2639 Walnut Hill St.,</b><br><b>Dallas, Tx.</b>                | FILED<br>\$ <b>157.50</b> --<br>ALLOWED<br>\$ |         |
| 4                                                     | DATE FILED:<br><b>Carterfone Communications Corp.</b><br><b>2639 Walnut Hill St.,</b><br><b>Dallas, Tx.</b>                | FILED<br>\$ <b>80.00</b> --<br>ALLOWED<br>\$  |         |
| 5                                                     | DATE FILED:<br><b>Carterfone Communications Corp.</b><br><b>2639 Walnut Hill St.,</b><br><b>Dallas, Tx/</b>                | FILED<br>\$ <b>157.50</b> --<br>ALLOWED<br>\$ |         |
| 6                                                     | DATE FILED:<br><b>Carterfone Communications Corp.</b><br><b>2639 Walnut Hill St.,</b><br><b>Dallas, Tx.</b>                | FILED<br>\$ <b>46.42</b> --<br>ALLOWED<br>\$  |         |
| 7                                                     | DATE FILED:<br><b>Carterfone Communications Corp.</b><br><b>2639 Walnut Hill St.,</b><br><b>Dallas, Tx.</b>                | FILED<br>\$ <b>80.00</b> --<br>ALLOWED<br>\$  |         |
| 8                                                     | DATE FILED:<br><b>Carterfone Communications Corp.</b><br><b>2639 Walnut Hill St.,</b><br><b>Dallas, Tx.</b>                | FILED<br>\$ <b>69.68</b> --<br>ALLOWED<br>\$  |         |
| 89                                                    | DATE FILED:<br><b>Carterfone Communications Corp.</b><br><b>2639 Walnut Hill St.,</b><br><b>Dallas, Texas</b>              | FILED<br>\$ <b>137.19</b> --<br>ALLOWED<br>\$ |         |



| NAME OF BANKRUPT/DEBTOR |                                                                                                                                                                 |                                    | DOCKET NO. |
|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|------------|
| CLAIM NO.               | NAME AND ADDRESS OF CLAIMANT<br>(and name and address of attorney, if any)                                                                                      | AMOUNT OF CLAIMS FILED AND ALLOWED | REMARKS    |
| 10                      | DATE FILED: 4-14-75<br>Samuel L. Thomas<br>2707 Harris Avenue<br>Wheaton, Md., 20902<br>David L. Terzian, 409 Computer Bldg., Georgia Ave., Wheaton, Md., 20902 | FILED<br>\$ 720.00<br>ALLOWED      |            |
| 11                      | DATE FILED: 4-18-75<br>C & P Telephone Co.,<br>Wheaton Plaza Office Bldg., South<br>Wheaton, Md. 20902                                                          | FILED<br>\$ 69.17<br>ALLOWED       |            |
| 12                      | DATE FILED:<br>C & P Telephone Co.<br>Wheaton Plaza Office Bldg., South<br>Wheaton, Md. 20902                                                                   | FILED<br>\$ 43.26<br>ALLOWED       |            |
| 13                      | DATE FILED: 4-21-75<br>International Communications Corp.<br>8600 N.W. 41st St.,<br>Miami, Fla.                                                                 | FILED<br>\$ 3,692.40<br>ALLOWED    |            |
| 14                      | DATE FILED: 4-23-75<br>Jos. F. Reading<br>13 Ramson Avenue<br>Trenton, N.J. 08628                                                                               | FILED<br>\$ 198.00<br>ALLOWED      | #80        |
| 15                      | DATE FILED:<br>Higgins Disposal Service, Inc.<br>P.O. Box 123<br>Kingston, N.J. 08528                                                                           | FILED<br>\$ 201.98<br>ALLOWED      | #47        |
| 16                      | DATE FILED:<br>H. Strauss & Sons, Inc.<br>429 Jersey Ave.,<br>New Brunswick, N.J.                                                                               | FILED<br>\$ 186.08<br>ALLOWED      | #87        |
| 17                      | DATE FILED:<br>Pr Newswire, Inc.<br>150 E. 58th Street<br>New York, N.Y. 10022                                                                                  | FILED<br>\$ 170.00<br>ALLOWED      | #75        |
| 18                      | DATE FILED:<br>Kane Delivery & Messenger Svc.<br>12411 Washington Ave.,<br>Rockville, Md., 20852                                                                | FILED<br>\$ 436.74<br>ALLOWED      | #53        |

| NAME OF BANKRUPT/DEBTOR |                                                                                                  |                                                       | DOCKET NO.                                  |
|-------------------------|--------------------------------------------------------------------------------------------------|-------------------------------------------------------|---------------------------------------------|
| CLAIM NO.               | NAME AND ADDRESS OF CLAIMANT<br>(and name and address of attorney, if any)                       | AMOUNT OF CLAIMS FILED AND ALLOWED                    | REMARKS                                     |
| 28                      | DATE FILED: 5-1-75<br>Worldcom, Inc.<br>11181 Harry Hines Blvd., #138<br>Dallas, Texas 75229     | FILED<br>\$4,448.38<br>ALLOWED<br>\$                  | #97                                         |
| 29                      | DATE FILED: 5-2-75<br>Data Access Systems<br>100 Route 46<br>Mt. Lakes, N.J. 07046               | FILED<br>\$393.75<br>ALLOWED<br>\$                    | #25 <i>copy # 84</i>                        |
| 30                      | DATE FILED:<br>E, Hertelendy<br>R R 2 Box 114<br>Trappe, Md. 21673                               | FILED<br>\$298.27<br>ALLOWED<br>\$                    | #46                                         |
| 31                      | DATE FILED:<br>The City of New York<br>Dept. of Tax<br>139 Centre Street<br>New York, N.Y. 10013 | FILED<br>\$2,145.00<br>ALLOWED<br><del>Expunged</del> | <i>in copy # 2 v<br/>August<br/>3/16/76</i> |
| 32                      | DATE FILED:<br>Tiger News<br>Box 65<br>Princeton, N.J. 08540                                     | FILED<br>\$42.25<br>ALLOWED<br>\$                     | #91                                         |
| 33                      | DATE FILED:<br>Computer Transmission Co.,<br>2352 Utah St.,<br>El Segundo, Ca. 90245             | FILED<br>\$406.65<br>ALLOWED<br>\$                    | #21                                         |
| 34                      | DATE FILED: 5-5-75<br>The Standard Register Co.,<br>626 Albany St.,<br>Dayton, Ohio 45401        | FILED<br>\$4,597.76<br>ALLOWED<br>\$                  |                                             |
| 35                      | DATE FILED:<br>A/L Lessors % Arthur Lang<br>9 Undercliff Terrace<br>West Orange, N.J. 07052      | FILED<br>\$666,828.54<br>ALLOWED<br>\$                | #1                                          |
| 36                      | DATE FILED: 5-6-75<br>Bennett, James & E.<br>P.O. Box 26<br>Blawenburg, N.J. 08540               | FILED<br>\$11,294.46<br>ALLOWED<br>\$                 | #7                                          |



| NAME OF BANKRUPT/DEBTOR |                                                                                                           | DOCKET NO.                             |                             |
|-------------------------|-----------------------------------------------------------------------------------------------------------|----------------------------------------|-----------------------------|
| APPLIED LOGIC CORP.     |                                                                                                           | 75 B 491                               |                             |
| CLAIM NO.               | NAME AND ADDRESS OF CLAIMANT<br>(and name and address of attorney, if any)                                | AMOUNT OF CLAIMS FILED AND ALLOWED     | REMARKS                     |
| 37                      | DATE FILED: 5-7-75<br>Typagraph Corp.<br>7547 Convoy Court<br>San Diego, Ca. 92111                        | FILED<br>\$ 452.52<br>ALLOWED<br>\$    | #93                         |
| 38                      | DATE FILED:<br>Jersey Tabulating Card C.<br>649 Rahway Avenue<br>Union, N.J. 07083                        | FILED<br>\$ 299.25<br>ALLOWED<br>\$    | #52                         |
| 39                      | DATE FILED: 5-8-75<br>Arthur Anderson & Co.,<br>33 Washington St.,<br>Newark, N.J. 07102                  | FILED<br>\$ 10,000.00<br>ALLOWED<br>\$ | #5                          |
| 40                      | DATE FILED: 5-9-75<br>Federal Express Corp.<br>AMF Box 30167<br>2837 Sprankel<br>Memphis, Tennessee 38130 | FILED<br>\$ 237.96<br>ALLOWED<br>\$    | #33                         |
| 41                      | DATE FILED: 5-9-75<br>Washington Carpet Sales<br>2706 University Blvd., W.<br>Wheaton, Md., 20902         | FILED<br>\$ 121.00<br>ALLOWED<br>\$    | #96                         |
| 42                      | DATE FILED: 5-9-75<br>Gardners Good: Foods, Inc.<br>154 Turnbull Avenue<br>Trenton, N.J. 08638            | FILED<br>\$ 188.70<br>ALLOWED<br>\$    | #40                         |
| 43                      | DATE FILED: 5-12-75<br>Anderson Jackson, Inc.<br>1065 Morse Avenue<br>Sunnyvale, Ca. 94086                | FILED<br>\$ 2,540.83<br>ALLOWED<br>\$  | #51<br><i>amended by 62</i> |
| 44                      | DATE FILED: 5-13-75<br>Russell Reid Co.,<br>P.O. Box 143<br>E. Millstone, N.J. 08873                      | FILED<br>\$ 356.00<br>ALLOWED<br>\$    | #81                         |
| 45                      | DATE FILED: 5-14-75<br>Cambridge Computer<br>Route 206 Center<br>Princeton, N.J. 08540                    | FILED<br>\$ 52.50<br>ALLOWED<br>\$     | #10                         |

| NAME OF BANKRUPT/DEBTOR |                                                                                                   | DOCKET NO.                                     |         |
|-------------------------|---------------------------------------------------------------------------------------------------|------------------------------------------------|---------|
| APPLIED LOGIC CORP.     |                                                                                                   | 75 B 491                                       |         |
| CLAIM NO.               | NAME AND ADDRESS OF CLAIMANT<br>(and name and address of attorney, if any)                        | AMOUNT OF CLAIMS FILED AND ALLOWED             | REMARKS |
| 19                      | DATE FILED:<br>Keuffel & Esser Co.,<br>20 Whippany Rd.,<br>Morristown, N.J.                       | FILED<br>\$ 71.02 --<br>ALLOWED<br>\$          |         |
| 20                      | DATE FILED: 4-24-75<br>Princeton University Store<br>36 University Place<br>Princeton, N.J. 08540 | FILED<br>\$ 13.63 --<br>ALLOWED<br>\$          | #77     |
| 21                      | DATE FILED: 4-28-75<br>Zeta Leasing Corp.<br>1043 Stuart Street<br>Lafayette, Ca. 95449           | FILED<br>\$ 600.00 --<br>ALLOWED<br>\$         | #99     |
| 22                      | DATE FILED:<br>Zeta Research<br>1043 Stuart Street<br>Lafayette, Ca. 94549                        | FILED<br>\$ 33.15 --<br>ALLOWED<br>\$          | #100    |
| 23                      | DATE FILED:<br>Piszato, J.<br>2306 Daisy Avenue<br>Long Beach, Ca. 90806                          | FILED<br>\$ 100.00 --<br>ALLOWED<br>\$         | #74     |
| 24                      | DATE FILED: 4-29-75<br>Stewart Data Products<br>1 Tall Timber Road<br>Middeltown, N.J. 07748      | FILED<br>\$ 432.00 + interest<br>ALLOWED<br>\$ | #86     |
| 25                      | DATE FILED: 4-30-75<br>Great Bear Spring Co.,<br>51 Madison Avenue<br>New York, N.Y.              | FILED<br>\$ 75.88 --<br>ALLOWED<br>\$          |         |
| 26                      | DATE FILED: 5-1-75<br>Tiger News<br>Box 65<br>Princeton, N.J. 08540                               | FILED<br>\$ 32.75 --<br>ALLOWED<br>\$          | #91     |
| 27                      | DATE FILED:<br>Gte Sylvania, Inc.<br>5700 West Genesee St.,<br>Camillus, N.Y. 13031               | FILED<br>\$ 402.00 --<br>ALLOWED<br>\$         | #42     |



| NAME OF BANKRUPT/DEBTOR |                                                                                                                    | DOCKET NO.                                                               |                                  |
|-------------------------|--------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|----------------------------------|
| CLAIM NO.               | NAME AND ADDRESS OF CLAIMANT<br>(and name and address of attorney, if any)                                         | AMOUNT OF CLAIMS FILED AND ALLOWED                                       | REMARKS                          |
| 46                      | DATE FILED: 5-15-75<br>Princeton Messenger Serv.,<br>P.O. Box 2042<br>Princeton, N.J. 08540                        | FILED<br>\$374.00<br>ALLOWED<br>\$                                       | #76                              |
| 47A                     | DATE FILED: 5/15/75<br>Princeton Electric<br>225 East State Street<br>Princeton, New Jersey                        | AMOUNT OF CLAIMS<br>FILED AND ALLOWED<br>\$1,037,952.47<br>ALLOWED<br>\$ |                                  |
| 48                      | DATE FILED: 5-19-75<br>Droege, Thomas<br>1535 Almond Court<br>Downers Grove, Ill. 60515                            | FILED<br>\$12,121.98<br>ALLOWED<br>\$                                    | #28                              |
| 49                      | DATE FILED:<br>State of New York<br>Dept. of Tax & Finance<br>State Campus<br>Albany, N.Y. 12227                   | FILED<br>\$316.25 +<br>ALLOWED<br>\$                                     | undetermined                     |
| 50                      | DATE FILED: 5-22-75<br>N.Y.S. Unemployment Ins Fund<br>P.O. Box 551<br>New York, N.Y.                              | FILED<br>\$ UNLIQUIDATED<br>ALLOWED<br>\$                                | amended by 60                    |
| 51                      | DATE FILED: 5-23-75<br>Montgomery County, Mariland<br>County Office Bldg. 100 Maryland Ave<br>Rockville, Md. 20850 | FILED<br>\$2,314.15<br>ALLOWED<br>\$                                     | Priority                         |
| 52                      | DATE FILED: 5/28/75<br>James Guard<br>27 Vernon Circle<br>Princeton, NJ 08540                                      | FILED<br>\$ 13 755 00<br>ALLOWED<br>\$                                   |                                  |
| 53                      | DATE FILED: 5/28/75<br>Firstmark Leasings Corp<br>107 Delaware Ave<br>Buffalo NY 14202                             | FILED<br>\$ 1-668,644.82<br>ALLOWED<br>\$1,636,144.82                    | Revised 2/2/76<br>signed 3/16/76 |
| 54                      | DATE FILED: 6-2-75<br>Harry Heher Jr<br>Suite 410, One Palmer Square<br>Princeton, N.J. 08540                      | FILED<br>\$ 7 962.15<br>ALLOWED<br>\$                                    | #45                              |

| NAME OF BANKRUPT/DEBTOR |                                                                                                                          | DOCKET NO.                                |                       |
|-------------------------|--------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|-----------------------|
| APPLIED LOGIC CORP.     |                                                                                                                          | 75 B 491                                  |                       |
| CLAIM NO.               | NAME AND ADDRESS OF CLAIMANT<br>(and name and address of attorney, if any)                                               | AMOUNT OF CLAIMS FILED AND ALLOWED        | REMARKS               |
| 55                      | DATE FILED:<br>Xerox Corporation<br>3000 Des Plaines Avenue<br>Des Plaines Ill 60018                                     | FILED<br>\$ 526 69 -<br>ALLOWED<br>\$     |                       |
| 56                      | DATE FILED: 6 4 75<br>Oglesby Francis C<br>293 Riverside Drive<br>Princeton N.J. 08540                                   | FILED<br>\$ 3 779 80 -<br>ALLOWED<br>\$   | #71                   |
| 57                      | DATE FILED: 6-5-75<br>Applicon Incorporated<br>154 Middlesex Ave<br>Burlington, Mass 01803                               | FILED<br>\$ 2 204 01 -<br>ALLOWED<br>\$   | #6                    |
| 58                      | DATE FILED: 6-9-75<br>State of California<br>Dept. of Human Resources<br>800 Capitol Mall<br>Sacramento Calif 95814      | FILED<br>\$ 431 20 -<br>ALLOWED<br>\$     | P                     |
| 59                      | DATE FILED:<br>State of New Jersey-<br>Dept of te Treasury-Div Taxation<br>West State & Willow Sts<br>Trenton N.J. 08625 | FILED<br>\$ 11 514 51 -<br>ALLOWED<br>\$  | amended by cl.<br>#84 |
| 60                      | DATE FILED: 6-11-75<br>N.Y.S. Unemployment Ins Fund<br>P.O. Box 551<br>Albany N.Y.                                       | FILED<br>\$ 111 29 -<br>ALLOWED<br>\$     | amended cl # 50       |
| 61                      | DATE FILED: 6-12-75<br>Xerox Corporation<br>1616 N Ft Myer Drive<br>Arlington, Va.                                       | FILED<br>\$ 358 18 -<br>ALLOWED<br>\$     |                       |
| 62                      | DATE FILED: 6 17 75<br>Anderson Jacobson Inc<br>1065 Morse Street<br>Sunnyvale Ca                                        | FILED<br>\$ 3 038 63 -<br>ALLOWED<br>\$   | amended cl # 43       |
| 63                      | DATE FILED: 6 20 75<br>The First National Bank<br>90 Nassau Street<br>Princeton N.J.                                     | FILED<br>\$ 424.687 00 -<br>ALLOWED<br>\$ |                       |



| NAME OF BANKRUPT/DEBTOR |                                                                                                           |                                        | DOCKET NO.       |
|-------------------------|-----------------------------------------------------------------------------------------------------------|----------------------------------------|------------------|
| CLAIM NO.               | NAME AND ADDRESS OF CLAIMANT<br>(and name and address of attorney, if any)                                | AMOUNT OF CLAIMS FILED AND ALLOWED     | REMARKS          |
| 64                      | DATE FILED: 6-24-75<br>Curtin & Heefner<br>250 N. Pa. Ave.,<br>Morrinsville, Pa. 19067                    | FILED<br>\$ 682.60<br>ALLOWED<br>\$    | #24              |
| 65                      | DATE FILED: 6-27-75<br>I.B.M Corp.,<br>590 Madison Avenue<br>New York, N.Y. 10022                         | FILED<br>\$ 21,223.13<br>ALLOWED<br>\$ | #49              |
| 66                      | DATE FILED: 6-30-75<br>Illinois Bell Telephone Company<br>4355 N. Linder<br>Chicago, Ill.                 | FILED<br>\$ 547.07<br>ALLOWED<br>\$    |                  |
| 67                      | DATE FILED: 7-14-75<br>General Telephone Co. of California<br>P.O. Box 1770<br>Santa Monica, Calif. 90406 | FILED<br>\$ 116.52<br>ALLOWED<br>\$    |                  |
| 68                      | DATE FILED: 7-18-75<br>Int. Business Machines Corp.,<br>315 Park Avenue South<br>New York, N.Y. 10010     | FILED<br>\$ 507.15<br>ALLOWED<br>\$    |                  |
| 69                      | DATE FILED:<br>Public Service Electric & Gas Co.,<br>222 East State Street<br>Trenton, N.J.               | FILED<br>\$ 19,121.44<br>ALLOWED<br>\$ |                  |
| 70                      | DATE FILED: 7-23-75<br>John's Moving & Delivery Svc.<br>3836 Ironwood Place<br>Landover, Md., 20785       | FILED<br>\$ 684.50<br>ALLOWED<br>\$    |                  |
| 71                      | DATE FILED: 8/8/75<br>Xerox Corp.<br>2200 E. McFadden St<br>Santa Ana, Calif. 92705                       | FILED<br>\$ 307.34<br>ALLOWED<br>\$    |                  |
| 72                      | DATE FILED: 8/11/75<br>New York Telephone Co.<br>1095 Ave. of the Amer.<br>NYC                            | FILED<br>\$ 127.09<br>ALLOWED<br>\$    | additional claim |



| NAME OF BANKRUPT/DEBTOR |                                                                                                                                               | DOCKET NO.                              |                       |
|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|-----------------------|
| Applied Logic Corp. ✓   |                                                                                                                                               | 75 B 491- <del>451</del>                |                       |
| CLAIM NO.               | NAME AND ADDRESS OF CLAIMANT<br>(and name and address of attorney, if any)                                                                    | AMOUNT OF CLAIMS FILED AND ALLOWED      | REMARKS               |
| 73                      | DATE FILED: 8/11/75<br>New York Telephone Co.<br>1095 Ave of the Amer<br>NYC                                                                  | FILED<br>\$ 182.33<br>ALLOWED<br>\$     | additional claim      |
| 74                      | DATE FILED: 8/11/75<br>New York Telephone Co.<br>1095 Ave of the Amer<br>NYC                                                                  | FILED<br>\$ 821.45<br>ALLOWED<br>\$     | additional claim      |
| 75                      | DATE FILED: 8/11/75<br>New York Telephone Co.<br>1095 Ave of the Amer<br>NYC                                                                  | FILED<br>\$ 218.50<br>ALLOWED<br>\$     | additional claim      |
| 76                      | DATE FILED: 8/11/75<br>New York Telephone<br>1095 Ave of the Amer<br>NYC                                                                      | FILED<br>\$ 135.81<br>ALLOWED<br>\$     |                       |
| 77                      | DATE FILED: 8/14/75<br>The Pacific Tele. & Telegraph Co.<br>740 South Olive<br>Los Angeles, California                                        | FILED<br>\$ 100.19<br>ALLOWED<br>\$     |                       |
| 78                      | DATE FILED: 8/18/75<br>New England Telephone & Telegraph Co.<br>c/o Henry J. Erickson<br>101 Huntington Ave., S-1750<br>Boston, Mass. 02199   | FILED<br>\$ 408.32<br>ALLOWED<br>\$     |                       |
| 79                      | DATE FILED:<br>Maryland Employment Security<br>Administration, Div. of<br>Unemployment Insurance<br>1100 N. Eutaw St.<br>Baltimore, Md. 21201 | FILED<br>\$ 83.86<br>ALLOWED<br>\$      |                       |
| 80                      | DATE FILED:<br>Allied Handi-Man Co., Div. of<br>Allied Bldg. & Airport Services<br>2 Penn Plaza<br>New York, N.Y.                             | FILED<br>\$ 30.83<br>ALLOWED<br>\$      |                       |
| 81                      | DATE FILED: 8/21/75<br>State of New Jersey<br>Dept. of Treasury-Div. Taxation<br>West State & Willow Streets<br>Trenton, N.J., 08625          | FILED<br>\$ 196,653.99<br>ALLOWED<br>\$ | Amended Cl. # 59<br>P |



| NAME OF BANKRUPT/DEBTOR |                                                                                                                     | DOCKET NO.                                 |         |
|-------------------------|---------------------------------------------------------------------------------------------------------------------|--------------------------------------------|---------|
| CLAIM NO.               | NAME AND ADDRESS OF CLAIMANT<br>(and name and address of attorney, if any)                                          | AMOUNT OF CLAIMS FILED AND ALLOWED         | REMARKS |
| 82                      | DATE FILED: 8/26/75<br>Bell Telephone Company of Nevada<br>1450 Vassar<br>Room 130<br>Reno, Nevada 89502            | FILED<br>\$ 3,985.60<br>ALLOWED<br>\$      |         |
| 83                      | DATE FILED: 9/8/75<br>Indiana Bell Telephone Co Inc<br>240 North Meridian Street<br>Indianapolis, Indiana 46204     | FILED<br>\$ 2,533.35<br>ALLOWED<br>\$      |         |
| ✓ 84                    | DATE FILED: 10/3/75<br>Data Access Systems Inc.<br>100 Rt. 46<br>Mountain Lakes NJ                                  | FILED<br>\$ 393.75<br>ALLOWED<br>\$        |         |
| 85                      | DATE FILED: 10-17-75<br>McLean Business Services, Inc.,<br>69 Delaware Ave.,<br>Buffalo, N.Y.                       | FILED<br>\$ 90.00<br>ALLOWED<br>\$         |         |
| 86                      | DATE FILED: 10 29-75<br>Colgate Research & Development Co.<br>One Palmer Square<br>Princeton, N.J.                  | FILED<br>\$ 123,265.04<br>ALLOWED<br>\$    |         |
| 87                      | DATE FILED:<br>State of New Jersey-Dept. of<br>Labor & Industry<br>State House Annex<br>Trenton, N.J. 08625         | FILED<br>\$ 1,000.00<br>ALLOWED<br>\$      | P       |
| ✓ 88                    | DATE FILED: 11/12/75<br>Dept. of Labor & Industry<br>Employment Sec. Agency<br>Trenton, NJ 08625                    | FILED<br>\$ 6619.73<br>ALLOWED<br>\$       | Amended |
| 89                      | DATE FILED: 11/20/75<br>RCA Corp.<br>Camden, NJ                                                                     | FILED<br>\$ 222.00<br>ALLOWED<br>\$        |         |
| 90                      | DATE FILED: 11/21/75<br>District Unemployment Compensation<br>6th St. & Penna. Ave., N.W.<br>Washington, D.C. 20001 | FILED<br>\$ Board \$38.40<br>ALLOWED<br>\$ |         |



| NAME OF BANKRUPT/DEBTOR |                                                                                                                                                | DOCKET NO.                                     |                              |
|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|------------------------------|
| Applied Logic Corp.     |                                                                                                                                                | 75 B 491 <del>RB</del> RB                      |                              |
| CLAIM NO.               | NAME AND ADDRESS OF CLAIMANT<br>(and name and address of attorney, if any)                                                                     | AMOUNT OF CLAIMS FILED AND ALLOWED             | REMARKS                      |
| 91                      | DATE FILED: 12/22/75<br>The Mercantile Bank of Canada<br>625 Dorchester Blvd. West<br>Montreal Que. H3B 1R3                                    | FILED<br>\$ 563.40<br>ALLOWED<br>\$            |                              |
| 92                      | DATE FILED: 12/23/75<br>CIT Financial Services Corp.<br>% C.D. Conte No. 729<br>650 Madison Ave.<br>NYC                                        | FILED<br>\$ 1,614,605.59<br>ALLOWED<br>\$      |                              |
| 93                      | DATE FILED: 12/29/75<br>Royal Typewriter Co. div. of Litton<br>150 New Park Ave.<br>Hartford, Conn.                                            | FILED<br>761.08<br>ALLOWED<br>\$               |                              |
| 94                      | DATE FILED:<br>Coudert Brothers<br>200 Park Ave.<br>NYC 10017<br>Atty: Mark D. Lebow 200 Park Ave., NYC                                        | FILED<br>\$ 31,546.57<br>ALLOWED<br>\$         |                              |
| 95                      | DATE FILED: 1/7/76<br>Rufus Bullock<br>25th Floor 261 Madison Ave.<br>NYC 10016                                                                | FILED<br>\$ 225,000.00<br>ALLOWED<br>\$        |                              |
| 96                      | DATE FILED: 1/15/76<br>Sperry Univac div. of Sperry Rand Corp.<br>Township Line and Jolly Road<br>Blue Bell, Pa.                               | FILED<br>\$ 135.50<br>ALLOWED<br>\$            |                              |
| 97                      | DATE FILED: 1/16/76<br>Electronic Associates Inc<br>185 Monmouth Pkwy.<br>West Long Branch, NJ                                                 | FILED<br>\$ 581.55<br>ALLOWED<br>\$            |                              |
| 98                      | DATE FILED: 1/19/76<br>Adolf & Rhoda Futterweit<br>P.O. Box 284<br>Lahaska, Pa. 18931<br>Atty: Barry M. Portnoy, 225 Franklin St. Boston Mass. | FILED<br>\$ 3750.00<br>ALLOWED<br>\$           |                              |
| 99                      | DATE FILED:<br>The CRC Group, Inc.<br>The Benson East<br>Jenkintown, Pa. 19046<br>Robert W. O'Donnell, 300 Three Penn Center Plaza Phila., Pa. | FILED<br>\$ 289,492.75<br>ALLOWED<br>\$ 100.00 | Order # 22<br>signed 3/16/76 |



| NAME OF BANKRUPT/DEBTOR |                                                                                                                                                              |                                                       | DOCKET NO.                                   |
|-------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|----------------------------------------------|
| CLAIM NO.               | NAME AND ADDRESS OF CLAIMANT<br>(and name and address of attorney, if any)                                                                                   | AMOUNT OF CLAIMS FILED AND ALLOWED                    | REMARKS                                      |
| 100                     | DATE FILED: 1/21/76<br>William B. Easton<br>999 Hidden Lake Dr., Apt. 18-I<br>North Brunswick NJ 08902                                                       | FILED<br>\$ 10,768.89<br>ALLOWED<br>\$                |                                              |
| 101                     | DATE FILED: 1/22/76<br>Sharon, Pierson, Semmes, Crolius & Finley<br>1054-31st St., N.W.<br>Washington, D.C. 20007                                            | FILED<br>\$ 1,281.30<br>ALLOWED<br>\$                 |                                              |
| 102                     | DATE FILED:<br>Ransome Airlines<br>2975 Galloway Rd.<br>Cornwells Heights, Pa 19020                                                                          | FILED<br>\$ 78.92<br>ALLOWED<br>\$                    |                                              |
| 103                     | DATE FILED: 1/22/76<br>First National City Bank<br>399 Park Ave.<br>NYC 10022<br>Attys: Weisman, Celler, Spett, Modlin & Wertheimer 425 Park Ave., NYC 10022 | FILED<br>\$ 92,283.60<br>ALLOWED                      |                                              |
| 104                     | DATE FILED: 1/29/76<br>The Chesapeake & Potomac Tele Co.<br>930 H Street, N.W.<br>Washington, D. C. 20005                                                    | FILED<br>\$ 3,373.99<br>ALLOWED<br>\$                 |                                              |
| 105                     | DATE FILED:<br>Dynatrend Inc.<br>Spring House Office Bldg.<br>Spring House Pa. 19477<br>Atty: Barry M Portnoy 225 Franklin St., Boston Mass.                 | FILED<br>\$ <del>21603.20</del><br>ALLOWED<br>100.00  | Order # 2 ✓<br>signed<br>3/16/76             |
| 106                     | DATE FILED: 2/25/76<br>Xerox Corp.<br>445 Hamilton Ave<br>White Plains NY 10601                                                                              | FILED<br>\$ 1,501.56<br>ALLOWED<br>\$                 |                                              |
| 107                     | DATE FILED: 3/3/76<br>The City of NY<br>Finance Dept.<br>139 Centre St<br>NY NY 10013                                                                        | FILED<br>\$ <del>605.98</del><br>ALLOWED<br>\$ 605.98 | Amended<br>See Order # 2 ✓<br>signed 3/16/76 |
| 108                     | DATE FILED: 3/29/76<br>Royal Typewriter Co.<br>150 New Park Ave<br>Hartford, CT. 06106                                                                       | FILED<br>\$ 761.08<br>ALLOWED<br>\$                   |                                              |



| NAME OF BANKRUPT/DEBTOR |                                                                                                                                                                                                     | DOCKET NO.                         |                        |
|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|------------------------|
| APPLIED LOGIC CORP      |                                                                                                                                                                                                     | 75 B 491 RB                        |                        |
| CLAIM NO.               | NAME AND ADDRESS OF CLAIMANT<br>(and name and address of attorney, if any)                                                                                                                          | AMOUNT OF CLAIMS FILED AND ALLOWED | REMARKS                |
| 109                     | DATE FILED: 4/1/76<br>The Chase Manhattan Bank, N.A.<br>1 Chase Manhattan Plaza<br>NYC<br>Atty: Messrs. Milbank, Tweed, Hadley & McCloy & Barry G. Yanker, Esq., 1 Chase Manhattan Plaza, NYC 10005 | FILED<br>\$276,997.10<br>ALLOWED   | Radick, Esq., & Gary D |
| 110                     | DATE FILED: 5/26/76<br>Montgomery County, Director of Finance<br>County Office Building<br>Rockville, Maryland 20850                                                                                | FILED<br>4,669.18<br>\$<br>ALLOWED |                        |
|                         | DATE FILED:<br><i>Case adjudicated<br/>For claims not entered<br/>See files</i>                                                                                                                     | FILED<br>\$<br>ALLOWED<br>\$       |                        |
|                         | DATE FILED:                                                                                                                                                                                         | FILED<br>\$<br>ALLOWED<br>\$       |                        |
|                         | DATE FILED:                                                                                                                                                                                         | FILED<br>\$<br>ALLOWED<br>\$       |                        |
|                         | DATE FILED:                                                                                                                                                                                         | FILED<br>\$<br>ALLOWED<br>\$       |                        |
|                         | DATE FILED:                                                                                                                                                                                         | FILED<br>\$<br>ALLOWED<br>\$       |                        |
|                         | DATE FILED:                                                                                                                                                                                         | FILED<br>\$<br>ALLOWED<br>\$       |                        |
|                         | DATE FILED:                                                                                                                                                                                         | FILED<br>\$<br>ALLOWED<br>\$       |                        |
|                         | DATE FILED:                                                                                                                                                                                         | FILED<br>\$<br>ALLOWED<br>\$       |                        |



SUMMONS AND NOTICE OF TRIAL**United States District Court**For the Southern District of New York

In the Matter of

APPLIED LOGIC CORPORATION,

Debtor

NEW JERSEY NATIONAL BANK,  
a national banking corporation,

Plaintiff,

vs.

APPLIED LOGIC CORPORATION,  
a New Jersey corporation,

Defendant.

Bankruptcy No. 75B-491**SUMMONS AND NOTICE OF TRIAL**

To the above-named defendant:

You are hereby summoned and required to serve upon Teich, Groh and Robinson,

, plaintiff's attorney, whose

address is 525 Broad Street Bank Building, 143 East State Street,  
Trenton, New Jersey 08608

a motion or an answer \* to the complaint which is herewith served upon you, on or before

the 26 day of May, 1975

, and to

file the motion or answer with this court not later than the second business day thereafter. If you fail to do so, judgment by default will be taken against you for the relief demanded in the complaint.

Summons and Notice of Trial

A-19

You are hereby notified that trial of the proceeding commenced by this complaint has been set for the 16<sup>th</sup> day of June, 1975, at 2:00 o'clock P.m., in Room 234, United States Courthouse, Foley Square, New York, New York 10007

ASA S. HERZOG

Bankruptcy Judge

ASA S. HERZOG

By: Ronna L. Rosen

Room 230  
Address: United States Courthouse  
Foley Square  
New York, New York 10007

Date of issuance: the 29 day of April, 1975.

\* If you make a motion, as you may in accordance with Bankruptcy Rule 712, that rule governs the time within which your answer must be served.

Exh B- 37 pages



COMPLAINT

In the Matter of

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

APPLIED LOGIC CORPORATION,

Debtor,

IN PROCEEDINGS FOR AN  
ARRANGEMENT UNDER CHAPTER 11  
OF THE BANKRUPTCY ACT

NEW JERSEY NATIONAL BANK,  
a national banking corporation,

Docket No. 75B-491

Plaintiff,

vs.

COMPLAINT

APPLIED LOGIC CORPORATION,  
a New Jersey corporation,

Defendant.

New Jersey National Bank, a national banking corporation, with its principal office and place of business at One West State Street, in the City of Trenton, County of Mercer, State of New Jersey, says that:

1. On May 25, 1971, the debtor herein, Applied Logic Corporation, a New Jersey corporation, made, executed and delivered a promissory note to secure the repayment of the sum of One Hundred Thousand Dollars (\$100,000) with interest at ten (10) percent per annum due and owing on demand. A true copy of the promissory note is attached hereto and made part hereof as Schedule A.

2. Simultaneously with the execution of the aforesaid promissory note, the debtor herein, Applied Logic Corporation, a New Jersey corporation, as aforesaid, entered into a New Jersey Security Agreement with New Jersey National Bank, the plaintiff herein, for the purpose of securing the repayment of the said promissory note set forth in Schedule A attached hereto and made part hereof. A true copy of the said New Jersey Security Agreement, dated May 25, 1971, attached hereto and made part hereof as Schedule B.

3. Simultaneously with the execution and delivery of the aforesaid promissory note and security agreement attached hereto and made part hereof as Schedules A and B, financing statements were executed by the parties hereto, which financing statements were duly recorded as follows:

(a) On May 26, 1971 with the Secretary of State for the State of New Jersey, instrument number 260291.

(b) On May 26, 1971 with the Clerk of the County of Mercer, State of New Jersey, instrument number 3146.

(c) May 26, 1971 with the Clerk of Somerset County, State of New Jersey, instrument number 4440.

(d) June 30, 1971 with the Office of the Clerk of Montgomery County, State of Maryland, 0166, Folio 266.

(e) June 1, 1971 with the County Recorder of



Washoe County, State of Nevada, instrument number 207683.

True copies of the aforesaid financing statements are attached hereto and made part hereof as Schedules C.

4. Applied Logic Corporation, a New Jersey corporation, has heretofore filed a petition pursuant to the provisions of Chapter 11 of the Bankruptcy Act of the United States of America, seeking an arrangement with its creditors pursuant to the provisions of the said Act. Plaintiff has been advised that the proceedings has been referred to the Honorable Asa S. Herzog, Bankruptcy Judge of the Southern District of New York of the United States District Court. Plaintiff has further been advised that no Receiver has been appointed in these proceedings and that the debtor has remained in possession and in operation of the business of the debtor corporation pending the further Order of this Court.

5. Default has occurred pursuant to the terms and conditions of the aforesaid promissory note in that payment thereof is currently in default. Pursuant to Paragraph 5.3 of the Security Agreement set forth in Schedule B attached hereto and made part hereof, default has also occurred by virtue of the fact that the debtor is instituted in these proceedings.

6. Plaintiff has been reliably advised that the value of the security as set forth in Exhibit 1, attached to

Schedule A, and Schedule A attached to Schedule A, is less than the balance due to the plaintiff herein. There is no equity in the security which plaintiff holds in the various assets referred to hereinabove.

7. There is due and owing to the Plaintiff herein the true and just balance of Fifty Six Thousand Eight Hundred Sixty Two Dollars and Ninety Three Cents (\$56,862.93) together with interest at the rate of ten (10) percent per annum from and after March 1, 1975.

8. Plaintiff has been unable to obtain possession of the assets which are the subject matter of the security agreement, attached hereto and made part hereof, as Schedule B.

WHEREFORE, plaintiff, New Jersey National Bank, a national banking corporation, demands judgment against the defendant:

(a) Determining that the security agreement and financing statements attached hereto and made part hereof as Schedules A and B constitute a good and valid lien on all of the assets which are more particularly described in the Schedules attached as Schedules A, B and C and that the true and just amount of the lien of the plaintiff in the sum of Fifty Six Thousand



Eight Hundred Sixty Two Dollars and Ninety Three Cents (\$56,862.93) and/or

(b) Directing the defendant to surrender possession of all of the assets more fully described in the Schedules attached as Schedules A, B and C attached hereto and made part hereof and/or

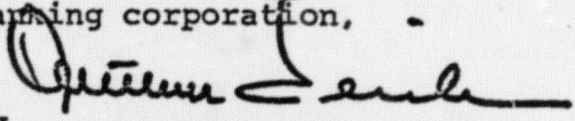
(c) Authorizing the plaintiff herein to make such disposition of the said assets upon surrender thereof in accordance with applicable state law, and/or

(d) Authorizing the plaintiff to file a claim in these proceedings for the deficiency arising as a result of the disposition of the said assets by the plaintiff, by crediting the proceeds of the disposition of the assets to the obligation as determined in these proceedings to which obligation is to be added the necessary expenses of sale together with a reasonable counsel fee, the claim to be filed for the net deficiency due after the appropriate credits and permitting the plaintiff to participate in any dividends to be paid to unsecured creditors, if any, in these proceedings, and/or

(e) Awarding to the plaintiff a reasonable counsel fee and expenses as is provided for in Paragraph 6.2 of the security agreement attached hereto and made part hereof as Schedule B, and/or

(f) For such other and further relief as to this Court may be deemed just and fit under the circumstances.

TEICH, GROH AND ROBINSON  
Attorneys for New Jersey  
National Bank, a national  
banking corporation,

BY 

ARTHUR TEICH  
A Member of the Firm

STATE OF NEW JERSEY )

ss.

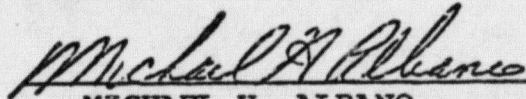
COUNTY OF MERCER )

MICHAEL H. ALBANO, of full age, being duly sworn according to law, upon his oath deposes and says:

1. Your deponent is Vice President of New Jersey National Bank, a national banking corporation, the plaintiff herein, and has personal knowledge of the facts contained in the foregoing Complaint.

2. Your deponent states that the facts set forth in the foregoing Complaint are true.

Sworn and subscribed to  
before me this 22nd day  
of April, 1975

  
MICHAEL H. ALBANO

S/ Alice M. Johnston  
Alice M. Johnston  
Notary Public of New Jersey



SCHEDULE A  
[Annexed to Complaint]

Promissory Note dated May 25, 1971 in amount  
of \$100,000 executed by ALC in favor of New  
Jersey National Bank with attachments.

(Pages A-27 through A-30 following)



\$100,000.00

Trenton, N. J., May 25, 1971

11805

ON DEMAND, after date, for value received, I, we and either of us, promise to pay to the order of

New Jersey National Bank, at any office of said Bank, One Hundred Thousand (\$100,000.00) -----

Dollars, with interest at 10%, from the date hereof.

There is hereby and herewith delivered and pledged as collateral security for the payment of this note and any other liability or liabilities of the undersigned, or any of them, to the holder hereof, whether direct, or contingent, individual or firm, joint or several, primary or secondary, matured or unmatured, now existing or hereinafter arising, the following property, viz:

All unencumbered assets, including specifically:

Fixtures and equipment as listed in Schedule A attached, all inventory and after acquired inventory, all accounts receivable now or arising hereafter, all notes receivable, as listed on Exhibit #1, attached. (This loan is made in accordance with Paragraph 4 a 4 of an agreement between Applied Logic Corporation and "Banks" and "Lessors" and "DEC" dated September 2, 1970.)

with the right on the part of the holder hereof, without notice to any party to this note, to transfer the same to the holder hereof, his or its nominee, to substitute or exchange for the same other certificates of like tenor and amount, and also whether or not any of such obligations owed by the undersigned, or any of them, be due, to demand, sue for, collect, and receive any part of the principal interest, dividends, money or property at any time due payable or receivable on account of the pledged securities or property or in exchange for the same, to make any compromise, extension of payment, settlement, or otherwise modify the terms of the pledged collateral without thereby incurring responsibility to or discharging or otherwise affecting any liability hereon of the undersigned, or any of them, or any other party to this note.

And the holder hereof is hereby given the further right to demand additional collateral security from time to time, whether or not this or any other obligation of the undersigned, or any of them, is due, and if the undersigned shall not on demand furnish such further security, or if the principal or interest upon this or any of the obligations of the undersigned or any of them to the holder hereof be not paid when due, or if any party to this note shall die or become insolvent, thereupon upon the happening of any of the foregoing events, at the option of the holder, this and any or all of said obligations of the undersigned shall become and be due and payable forthwith without presentation, demand, notice, protest, notice of protest or other notice of dishonor of any kind, all of which are hereby expressly waived; and the holder of this note, or any officer or agent of the holder, is empowered to retain and apply any money, securities or property of any kind belonging to the undersigned, or any of them, to the payment of this or any other obligation of the undersigned, or any of them, and to sell at public or private sale, at any Broker's Board, Public Exchange, or elsewhere, assign and deliver, (a) at the option of the holder, by suit or otherwise, to collect, receive payment for, surrender, indorse for cancellation, compromise, release, renew, extend, exchange or substitute) the whole or any part of the collateral, and all additions and substitutions thereof, including notes and all negotiable instruments, bonds or notes secured by mortgages or other choses in action, or promissas or agreements of any character to pay money, without advertisement or notice to any party to this note of the time or place of sale, or of any adjournment thereof. After deducting all expenses of such sale, or sales, the holder may apply the residue of the proceeds thereof, as well as the balance of any deposit account of the undersigned, or any of them, with the holder hereof, to the payment of this and any other indebtedness of the undersigned, or any of them, returning the excess, if any, to the undersigned, or any of them, all parties to this note to be and remain liable for any deficiency. The undersigned hereby waives all right of redemption or appraisal whether before or after the sale. At any such sale the holder hereof may become the purchaser of the whole or any part of said collateral free from any right of redemption by any person. The provisions of this note shall apply to all substitute new, or additional collateral.

No delay by the holder hereof in exercising any power or right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any power or right hereunder preclude other or further exercise thereof or the exercise of any other power or right. The holder hereof shall not be liable to any party hereto because of its exercise, failure to exercise, or manner of exercising any right herein set forth, nor for any other reason be liable for loss or depreciation in said collateral. The rights and remedies herein expressly specified are cumulative and not exclusive of any rights or remedies which the holder may or would otherwise have.

Any payment of interest or principal made by any party to this note, or derived from the income or liquidation of the collateral pledged to secure it and applied to such payment of interest or principal by the holder hereof, shall be deemed to be so made and applied on behalf of every party obligated on the note, and each party to this note hereby constitutes each, any, and all other parties hereto, including the holder hereof, his agent for that purpose.

The undersigned, if more than one, shall be jointly and severally liable hereunder and upon the foregoing note, and all provisions hereof regarding liabilities or securities of the undersigned shall apply to any liability or any security of any or all of them. These presents are to be binding upon the heirs, executors, administrators, assigns or successors of the undersigned.

APPLIED LOGIC CORPORATION

3-1-80

BY:

*[Signature]*

One Palmer Square, Princeton, N.J. 08540



EXHIBIT 1

NOTES RECEIVABLE ASSIGNED TO NEW JERSEY NATIONAL BANK

FOR PURPOSES OF PARAGRAPH 4(a)(4), AGREEMENT OF SEPTEMBER 2, 1970

FILED

|                                                                                                    | <u>Principal<br/>Amount</u> | <u>Unpaid Balance<br/>as of May 20, 1970</u> | <u>Annual Interest<br/>Rate</u> | <u>Maturity<br/>Date</u> |
|----------------------------------------------------------------------------------------------------|-----------------------------|----------------------------------------------|---------------------------------|--------------------------|
| KPA June 2, 1971<br>June 2, 1971, Inc. to ALC                                                      | \$ 60,000                   | \$ 60,000                                    | 9%                              | Demand                   |
| KPA TRENCH COUNTY<br>D. OLSON, CLERK<br>Inc. to ALC                                                | 20,000                      | 15,000                                       | 8%                              | 12/19/70                 |
| John Keane & Associates to ALC<br>(Timeshared Utility Corp. to ALC)                                | 20,000                      | 15,086                                       | 8%                              | 9/27/70                  |
| Applicon Inc. to ALC<br>(Section 10 of January 1, 1971<br>Agreement; no separate note<br>executed) | Variable                    | 21,110                                       | None                            | None                     |
| Information Management Corp. to ALC                                                                | 6,000                       | 6,000                                        | None                            | 6/29/71                  |
| Information Management Corp. to ALC                                                                | 6,000                       | 6,000                                        | None                            | 6/29/72                  |
| Computer Solutions, Inc. to ALC                                                                    | 20,000                      | 20,000                                       | 8%                              | 10/30/70                 |
| Information Systems Corp. to ALC                                                                   | 98,500                      | 97,070                                       | 9.6%                            | 3/1/71-5/1/71            |
| Davis Computer Systems, Inc. to ALC                                                                | 25,000                      | 25,000                                       | 8.5%                            | 8/1/71                   |
| Davis Computer Systems, Inc. to ALC                                                                | 50,000                      | 50,000                                       | 8.5%                            | 8/1/70-7/1/71            |
| Davis Computer Systems, Inc. to ALC<br>(Section 2a of February 1, 1970<br>Agreement)               | 25,000                      | 25,000                                       | --                              | 5/1/70                   |
| Roger Maydock to ALC                                                                               | 2,613                       | 1,250                                        | 4%                              | 3/7/69-3/7/71            |
| William Meier to ALC                                                                               | 6,793                       | 5,005                                        | 4%                              | 3/5/69-3/5/71            |

BEST COPY AVAILABLE

Exhibit 1  
 Notes Receivable Assigned to  
 New Jersey National Bank

.2

May 21, 1971

|                           | <u>Principal<br/>Amount</u> | <u>Unpaid Balance<br/>as of May 20, 1970</u> | <u>Annual Interest<br/>Rate</u> | <u>Maturity<br/>Date</u> |
|---------------------------|-----------------------------|----------------------------------------------|---------------------------------|--------------------------|
| Thomas D. Truitt to ALC   | 2,613                       | 1,250                                        | 4%                              | 3/1/69-3/1/74            |
| Richard M. Colgate to ALC | 2,375                       | 1,000                                        | 4%                              | 2/7/69-2/7/73            |
| Richard M. Colgate to ALC | 3,919                       | 2,625                                        | 4%                              | 12/29/68-12/29/76        |

The following six (6) notes are subject to terms of an agreement between said parties, Thomas H. Mott, and Applied Logic Corporation dated October 14, 1970, copies of which have been delivered to New Jersey National Bank:

|                           |        |        |    |                   |
|---------------------------|--------|--------|----|-------------------|
| James H. Bennett to ALC   | 13,941 | 10,273 | 4% | 12/29/68-12/29/71 |
| Thomas F. Droege to ALC   | 6,816  | 5,023  | 4% | 3/22/69-3/22/78   |
| William B. Easton to ALC  | 14,155 | 10,430 | 4% | 12/29/68-12/29/71 |
| Holf Futterweit to ALC    | 2,351  | 975    | 4% | 12/26/68-12/26/71 |
| James R. Guard to ALC     | 7,458  | 5,495  | 4% | 12/28/68-12/28/71 |
| Francis C. Oglesby to ALC | 2,613  | 1,250  | 4% | 2/28/69-2/28/74   |



All equipment now owned or hereafter acquired together with replacements, substitutions and the proceeds thereof including but not limited to the following:

## PART I

| <u>Quantity</u> | <u>Item</u>   | <u>Description</u>                 | <u>Serial Number</u>                                         |
|-----------------|---------------|------------------------------------|--------------------------------------------------------------|
| 6               | MA10          | Core Memories                      | 197,187,139<br>194,207,193                                   |
| 3               | KA10          | Arithmetic Processors              | 111,105,117                                                  |
| 3               | KM10          | Fast Registers                     | 111,105,117                                                  |
| 3               | KT10A         | Dual Memory Protectors             | 111,105,117                                                  |
| 1               | MA10          | Core Memories                      | 152                                                          |
| 1               | KT10A         | KT10 Update Modification           | 5                                                            |
| 100             | PDP-10        | Reference Cards                    | none                                                         |
| 10              | PDP-10        | Interface Manuals                  | none                                                         |
| 18              | PDP-10        | Reference Handbooks                | none                                                         |
| 2               | MC10          | Add Memory Processors              | none                                                         |
| 2               |               | Auto Tape Controllers              | none                                                         |
| 1               | PDP-8         | Central Processor                  | 1491                                                         |
| 6               | PDP-8/<br>680 | Central Processors                 | 1490, 1233, 1303,1414<br>1493, 1471                          |
| 7               | ASR-33        | Teletypes                          | 202848, 210145,<br>210022, 202834, 202835,<br>202794, 210089 |
| 6               | 681           | Serial Line Adapters               | 127, 60, 122, 121, 119<br>118                                |
| 6               | 685           | Serial Line Multiplexers           | 114, 113, 118, 115, 109<br>60                                |
| 8               | 689M          | Panels                             | 136, 134, 133, 137, 143<br>149, 142, 145                     |
| 6               | Cab 8I        | Cabinets                           | none                                                         |
| 7               | Cab 8E        | Cabinets                           | none                                                         |
| 384             | W750          | Teletype Line Units                | none                                                         |
| 288             | 689MI         | Modem Interface Adapters           | none                                                         |
| 4               | 689MA         | Modem Interface Adapters           | 139, 140, 123, 137                                           |
| 1               | PDP-8         | Software Kit (write-ups & 4 tapes) | none                                                         |
| 1               | 74-           |                                    |                                                              |
|                 | 05668         | Indicator Panel #2                 | none                                                         |
| 1               | 74-5534       | Cover Retainer                     | none                                                         |

SCHEDULE B  
[Annexed to Complaint]

Security Agreement dated May 25, 1971 between  
ALC and New Jersey National Bank with attached  
schedules.

---

(Pages A-32 through A-38 following)



# This Agreement,

made the 25th day of May, 19 71,

Between APPLIED LOGIC CORPORATION, a New Jersey Corporation,

residing or located at 1 Palmer Square  
in the Borough of Princeton, in the County of  
Mercer, and State of New Jersey, herein referred to as the Debtor;  
And NEW JERSEY NATIONAL BANK, a New Jersey Banking Corporation,

residing or located at One West State Street  
in the City of Trenton, in the County of  
Mercer, and State of New Jersey, herein referred to as the Secured Party:

Witnesseth, that Debtor hereby grants to Secured Party a security interest in the collateral described in Schedule A herein to secure payment of an indebtedness in the sum of (\$ 100,000.00 )  
One Hundred Thousand-----Dollars  
together with interest, payable in the following manner:

ON DEMAND

This loan is made in accordance with Paragraph 4 a 4 of an agreement between Applied Logic Corporation and "Banks" and "Lessors" and "DEC" dated September 2, 1970.

and to further secure performance by Debtor of all other terms herein.

1. USE OF COLLATERAL. Debtor represents that the collateral will be used
  - (X) a. In business.
  - ( ) b. For personal, family or household purposes.
  - ( ) c. In farming operations.

a. **FIXTURES.** If the collateral is or will be attached to real estate prior to this loan or prior to the perfection of Secured Party's security interest, Debtor will furnish Secured Party with subordinations by all persons having any interest in the real estate. The names, addresses and interests of all persons whose interests are to be subordinated, are

b. **GOODS USED IN MORE THAN ONE STATE.** If the collateral is goods of a type which is normally used in more than one State, the chief place of business, if other than Debtor's address set forth above, is



## 2. DEBTOR. WARRANTS AND COVENANTS THAT:

**2.1 USE OF PROCEEDS OF LOAN.** If the loan is to be used to pay, or the debt represents a portion of the purchase price of the collateral, Debtor either will use all the proceeds of the loan to pay the purchase price and for no other purpose, or authorizes Secured Party to pay the proceeds directly to the seller of the collateral and to pay premiums for the insurance set forth in Paragraph 2.4.

**2.2 SELL, ETC.** Debtor is the owner of the collateral free of any other lien or security interest and will not sell, exchange, lease or otherwise dispose of the collateral, nor permit any person other than Secured Party to acquire a lien or security interest therein or file a financing statement covering the collateral.

**2.3 PRESERVATION.** Debtor will maintain the collateral in good condition and repair and preserve it against loss, damage or depreciation in value other than by reasonable wear.

**2.4 INSURANCE.** Debtor will carry insurance on the collateral against damage or loss by fire, theft and other casualty, including collision, if applicable, in an amount not less than \$ \_\_\_\_\_ with responsible insurers authorized to do business in this State, loss to be payable to the parties as their respective interests may then appear. In the event of any loss or damage to the collateral, Debtor forthwith shall notify Secured Party in writing and file proofs of loss with the appropriate insurers. Debtor, upon request, shall deliver to Secured Party the policies or certificates of insurance.

**2.5 TAXES.** Debtor will pay when due, taxes and assessments or license fees of any nature relating to the collateral or its use.

**2.6 AUTHORITY TO SECURED PARTY.** Debtor authorizes Secured Party, if Debtor fails so to do, to do all things required of Debtor by Paragraphs 2.3, 2.4 and 2.5 herein and charge all reasonable expenses incurred by Secured Party to Debtor with interest at \_\_\_\_\_ %.

**2.7 REMOVAL AND INSPECTION.** Debtor will not remove the collateral from the specified location, except in the normal course of business for temporary periods, without the prior written consent of Secured Party and will permit Secured Party to inspect the collateral at any reasonable time.

**2.8 PERFECTION OF SECURITY INTEREST.** Debtor will join with Secured Party in executing, filing and doing whatever may be necessary under applicable law, to perfect, continue and terminate Secured Party's security interest in the collateral, at Debtor's expense.

**2.9 EXTENSIONS AND RELEASES.** Debtor consents to any extension of time of payment. If this agreement secures a note, the note is a separate instrument and may be negotiated by Secured Party without releasing Debtor, the collateral or any guarantor or co-maker.

## 3. GENERAL.

**3.1 GUARANTOR OR CO-MAKER.** If there be more than one Debtor, guarantor or co-maker of a note or of this agreement the obligation of all shall be primary, joint and several.

**3.2 NON-WAIVER BY SECURED PARTY.** Failure of Secured Party to insist upon strict performance of any of the warranties and covenants of this agreement or to exercise any option herein conferred in any one or more instances shall not be construed as a waiver or relinquishment for the future of any such warranties, covenants or options, but the same shall be and remain in full force and effect.

**3.3 NOTICES.** All notices to either party shall be by mail or telegraph addressed to such party at the address set forth herein or previously changed in writing or by personal service upon such party or its proper corporate officer. Reasonable notice, when notice is required, shall be not less than \_\_\_\_\_ days.

**3.4 SEVERABILITY.** Any part of this agreement contrary to the laws of this State or any State having jurisdiction shall not invalidate other parts of this agreement.

**3.5 LAW GOVERNING.** All the terms herein and the rights, duties and remedies of the parties shall be governed by the Uniform Commercial Code. (N.J.S. 12A)

**4. DEFAULT.** Debtor shall be in default under this agreement upon the occurrence of any of the following:

**4.1 NONPAYMENT OF PRINCIPAL AND INTEREST.** Failure to pay the principal or any installment thereof or interest on the debt or note within \_\_\_\_\_ days after the due date.

**4.2 BREACH OF AGREEMENT BY DEBTOR.** Failure by Debtor to keep, observe or perform any provision of this agreement.



5. **ACCELERATION.** The unpaid balance of the principal sum due and interest thereon shall immediately become due and payable at the election of Secured Party in the event of any of the following:

5.1 **DEFAULT.** As defined herein.

5.2 **MISREPRESENTATION.** Misrepresentation or material falsity of any certificate or statement made or furnished by Debtor to Secured Party in connection with this agreement.

5.3 **INSOLVENCY OR TERMINATION.** Termination or sale of business, insolvency or death of Debtor or commencement of any insolvency proceedings by or against Debtor.

5.4 **INSECURITY.** Depreciation or impairment of the value of the collateral, or a change in the financial status of Debtor, which jeopardizes the prospect of payment of the debt or performance of any of the covenants and conditions herein.

6. **REMEDIES ON DEFAULT.** In addition to all the rights and remedies herein for default, Secured Party shall have such other rights and remedies as contained in the Uniform Commercial Code.

6.1 **ASSEMBLING COLLATERAL.** Upon any default and upon demand, Debtor agrees to immediately assemble the collateral and make it available to Secured Party at the place and at the time designated in the said demand.

6.2 **COUNSEL FEES AND LEGAL EXPENSES.** Upon any default Secured Party may charge Debtor such reasonable counsel fees, legal expenses and other charges incurred by Secured Party in taking and selling the collateral, rendering the surplus if any, according to the Uniform Commercial Code.

All the terms, covenants and conditions herein contained shall be for and shall inure to the benefit of and shall bind the respective parties hereto, and their legal representatives, successors and assigns, respectively.

In all references herein to any parties, persons, entities or corporations the use of any particular gender or the plural or singular number is intended to include the appropriate gender or number as the text of the within instrument may require.

In Witness Whereof, Debtor and Secured Party have hereunto set their hands and seals, or caused these presents to be signed by their proper corporate officers and caused their proper corporate seal to be hereto affixed, the day and year first above mentioned.

WITNESS:

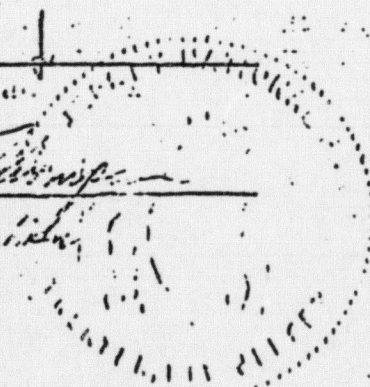
APPLIED LOGIC CORPORATION

BY: [Signature]

NEW JERSEY NATIONAL BANK

BY: [Signature]

[Signature]  
[Signature]  
[Signature]



## DESCRIPTION AND LOCATION OF COLLATERAL

A-35

The following is a schedule of the items constituting the collateral referred to in this security agreement and the address where each item is and shall be located and if any item is or will be a fixture attached to real estate, the description of the real estate and the name and address of the owner of record thereof.

All unencumbered assets, including specifically:  
Fixtures and equipment as listed on Schedule A attached.  
All inventory now owned and after acquired inventory.  
All accounts receivable now existing or arising hereafter.  
All notes receivable, as listed on Exhibit #1, attached.

together with all accessories, substitutions, additions, replacements, parts and accessions affixed to or used in connection with the collateral.

### Security Agreement On Goods and Chattels

APPLIED LOGIC CORPORATION,  
a New Jersey Corporation,

TO

NEW JERSEY NATIONAL BANK,  
a New Jersey Banking  
Corporation.

Dated, May 25, 19 71.

STARK AND STARK  
COUNSELLORS AT LAW  
BROAD STREET BANK BUILDING  
TRENTON, N. J. 08608



EXHIBIT 1

NOTES RECEIVABLE ASSIGNED TO NEW JERSEY NATIONAL BANK  
FOR PURPOSES OF PARAGRAPH 4(a)(4), AGREEMENT OF SEPTEMBER 2, 1970

| FILED                                                                                              | Principal<br>Amount | Unpaid Balance<br>as of May 20, 1970 | Annual Interest<br>Rate | Maturity<br>Date |
|----------------------------------------------------------------------------------------------------|---------------------|--------------------------------------|-------------------------|------------------|
| KPA Jewel Shading, Inc. to ALC                                                                     | \$ 60,000           | \$ 60,000                            | 9%                      | Demand           |
| KPA TENSERET COUNTY Inc. to ALC<br>D. OLSON, CLERK                                                 | 20,000              | 15,000                               | 8%                      | 12/19/70         |
| John Keane & Associates to ALC<br>(Timeshared Utility Corp. to ALC)                                | 20,000              | 15,086                               | 8%                      | 9/27/70          |
| Applicon Inc. to ALC<br>(Section 10 of January 1, 1971<br>Agreement; no separate note<br>executed) | Variable            | 21,110                               | None                    | None             |
| Information Management Corp. to ALC                                                                | 6,000               | 6,000                                | None                    | 6/29/71          |
| Information Management Corp. to ALC                                                                | 6,000               | 6,000                                | None                    | 6/29/72          |
| Computer Solutions, Inc. to ALC                                                                    | 20,000              | 20,000                               | 8%                      | 10/30/70         |
| Information Systems Corp. to ALC                                                                   | 98,500              | 97,070                               | 9.6%                    | 3/1/71-5/1/71    |
| Davis Computer Systems, Inc. to ALC                                                                | 25,000              | 25,000                               | 8.5%                    | 8/1/71           |
| Davis Computer Systems, Inc. to ALC                                                                | 50,000              | 50,000                               | 8.5%                    | 8/1/70-7/1/71    |
| Davis Computer Systems, Inc. to ALC<br>(Section 2a of February 1, 1970<br>Agreement)               | 25,000              | 25,000                               | --                      | 5/1/70           |
| Roger Haydock to ALC                                                                               | 2,613               | 1,250                                | 4%                      | 3/7/69-3/7/71    |
| William Meier to ALC                                                                               | 6,793               | 5,005                                | 4%                      | 3/5/69-3/5/71    |

Exhibit 1

Assets Receivable Assigned to  
New Jersey National Bank

.2

May 21, 1971

|                           | <u>Principal<br/>Amount</u> | <u>Unpaid Balance<br/>as of May 20, 1970</u> | <u>Annual Interest<br/>Rate</u> | <u>Maturity<br/>Date</u> |
|---------------------------|-----------------------------|----------------------------------------------|---------------------------------|--------------------------|
| Thomas D. Truitt to ALC   | 2,613                       | 1,250                                        | 4%                              | 3/1/69-3/1/74            |
| Richard M. Colgate to ALC | 2,375                       | 1,000                                        | 4%                              | 2/7/69-2/7/73            |
| Richard M. Colgate to ALC | 3,919                       | 2,625                                        | 4%                              | 12/29/68-12/29/76        |

The following six (6) notes are subject to terms of an agreement between said parties, Thomas H. Mott, Applied Logic Corporation dated October 14, 1970, copies of which have been delivered to New Jersey National Bank:

|                           |        |        |    |                   |
|---------------------------|--------|--------|----|-------------------|
| Thomas H. Bennett to ALC  | 13,941 | 10,273 | 4% | 12/29/68-12/29/76 |
| Thomas F. Droege to ALC   | 6,816  | 5,023  | 4% | 3/22/69-3/22/78   |
| William B. Easton to ALC  | 14,155 | 10,430 | 4% | 12/29/68-12/29/76 |
| Wolf Futterweit to ALC    | 2,351  | 975    | 4% | 12/26/68-12/26/76 |
| Thomas R. Guard to ALC    | 7,458  | 5,495  | 4% | 12/28/68-12/28/76 |
| Francis C. Oglesby to ALC | 2,613  | 1,250  | 4% | 2/28/69-2/28/74   |



Schedule A

Page 1

All equipment now owned or hereafter acquired together with replacements, substitutions and the proceeds thereof including but not limited to the following:

## PART I

| Quantity | Item          | Description                        | Serial Number                                                |
|----------|---------------|------------------------------------|--------------------------------------------------------------|
| 6        | MA10          | Core Memories                      | 197,187,139<br>194,207,193                                   |
| 3        | KA10          | Arithmetic Processors              | 111,105,117                                                  |
| 3        | KM10          | Fast Registers                     | 111,105,117                                                  |
| 3        | KT10A         | Dual Memory Protectors             | 111,105,117                                                  |
| 1        | MA10          | Core Memories                      | 152                                                          |
| 1        | KT10A         | KT10 Update Modification           | 5                                                            |
| 100      | PDP-10        | Reference Cards                    | none                                                         |
| 10       | PDP-10        | Interface Manuals                  | none                                                         |
| 18       | PDP-10        | Reference Handbooks                | none                                                         |
| 2        | MC10          | Add Memory Processors              | none                                                         |
| 2        |               | Auto Tape Controllers              | none                                                         |
| 1        | PDP-8         | Central Processor                  | 1491                                                         |
| 6        | PDP-8/<br>680 | Central Processors                 | 1490, 1233, 1303,1414<br>1493, 1471                          |
| 7        | ASR-33        | Teletypes                          | 202848, 210145,<br>210022, 202834, 202835,<br>202794, 210089 |
| 6        | 681           | Serial Line Adapters               | 127, 60, 122, 121, 119<br>118                                |
| 6        | 685           | Serial Line Multiplexers           | 114, 113, 118, 115, 109<br>60                                |
| 8        | 689M          | Panels                             | 136, 134, 133, 137, 143<br>149, 142, 145                     |
| 6        | Cab 8I        | Cabinets                           | none                                                         |
| 7        | Cab 8B        | Cabinets                           | none                                                         |
| 384      | W750          | Teletype Line Units                | none                                                         |
| 288      | 689MI         | Modem Interface Adapters           | none                                                         |
| 4        | 689MA         | Modem Interface Adapters           | 139, 140, 123, 137                                           |
| 1        | PDP-8         | Software Kit (write-ups & 4 tapes) | none                                                         |
| 1        | 74-           |                                    |                                                              |
|          | 05668         | Indicator Panel #2                 | none                                                         |
| 1        | 74-5534       | Cover Retainer                     | none                                                         |

SCHEDULE C  
[Annexed to Complaint]

Financing Statement dated May 26, 1971 filed with the Secretary of State of New Jersey; Financing Statement dated May 26, 1971 filed with Clerks of Mercer County and Somerset County; Financing Statement dated June 30, 1971 filed with County Clerk of Montgomery County, with attachments; Recapitalization Agreement dated 9/15/71 between ALC and other banks, with attachments, denominated in the Complaint as Exhibit C.

(Pages A-40 through A-82 following)



This Space for use of Filing Officer.  
(Date, Time, File Number and Filing Office)

|                                                                                                                                          |                                                                                                                                             |                                                                           |
|------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|
| 1. Debtor(s) Name (Last Name First if Individual):<br><br><b>APPLIED LOGIC CORPORATION</b>                                               | 2. Debtor(s) Complete Address(es):<br><br><b>1 Palmer Square<br/>Princeton, New Jersey</b>                                                  | SEC. OF STATE<br>UNIFORM COMMERCIAL<br>SECTION<br><br>'71 MAY 25 AM 11:15 |
| THE SPACES TO THE RIGHT<br>HAVE BEEN DESIGNED FOR<br>USE IN A WINDOW ENVELOPE<br>WHEN RETURNING THE SECOND<br>COPY TO THE PERSON FILING. | 3. Secured Party(s) Name and Complete Address(es):<br><br><b>New Jersey National Bank<br/>One West State Street<br/>Trenton, New Jersey</b> | STATE OF NEW JERSEY                                                       |
|                                                                                                                                          | 4. Assignee(s) of Secured Party(s) Name and Complete Address(es):<br><br>                                                                   | 3,00 260291<br>260291                                                     |

5. This financing statement covers the following types (or items) of property: (Describe. If space inadequate continue on sheets 28, 29, 30)

All unencumbered assets, including specifically:  
 Fixtures and equipment as listed on Schedule "A3", attached.  
 All inventory now owned and after acquired inventory.  
 All accounts receivable now existing or arising hereafter.  
 All notes receivable, as listed on Exhibit #1, attached.

Also located at:

Route 206, Princeton Township, Princeton, N.J.  
 Route 206, Montgomery Township, Somerset County, N.J.

## CHECK (X) THE ITEMS WHICH APPLY

( ) (If collateral is crops). The above described crops are growing or are to be grown on: (Description of real estate and name and address of record owner.)  
 ( ) (If collateral is goods which are or are to become fixtures). The above described goods are affixed or are to be affixed to: (Description of real estate and name and address of record owner.)

7. (X) PROCEEDS of Collateral are also covered.

8. (X) PRODUCTS of Collateral are also covered.

No. of additional sheets presented ( )

9. (X) Filed with County Recording Officer of Mercer Co. &amp; Somerset County; (X) Secretary of State.

Signature(s) of Debtor(s)

APPLIED LOGIC CORPORATION

By: *[Signature]*

Signature(s) of Secured Party(s) or Assignee(s)

NEW JERSEY NATIONAL BANK

By: *[Signature]*SECURED PARTY'S COPY — This form of financing statement is approved by the Secretary of State of New Jersey.  
FORM UCC-1 STANDARD FORM — UNIFORM COMMERCIAL CODE

Ack. date 9 (2000)

THESE FORMS MAY BE PURCHASED FROM:  
ALL-STATE OFFICE SUPPLY CO.  
49 EDISON PLACE • NEWARK 2, N. J.





EXHIBIT 1NOTES RECEIVABLE ASSIGNED TO NEW JERSEY NATIONAL BANKFOR PURPOSES OF PARAGRAPH 4(a)(4), AGREEMENT OF SEPTEMBER 2, 1970

FILED

|                                                                                                    | <u>Principal<br/>Amount</u> | <u>Unpaid Balance<br/>as of May 20, 1970</u> | <u>Annual Interest<br/>Rate</u> | <u>Maturity<br/>Date</u> |
|----------------------------------------------------------------------------------------------------|-----------------------------|----------------------------------------------|---------------------------------|--------------------------|
| KPA June 25, 1971 PH 17<br>June 25, 1971<br>KPA TRENKLE COUNTY<br>P.O. BOX 1111<br>Inc. to ALC     | \$ 60,000                   | \$ 60,000                                    | 9%                              | Demand                   |
| KPA TRENKLE COUNTY<br>P.O. BOX 1111<br>Inc. to ALC                                                 | 20,000                      | 15,000                                       | 8%                              | 12/19/7                  |
| John Keane & Associates to ALC<br>(Timeshared Utility Corp. to ALC)                                | 20,000                      | 15,086                                       | 8%                              | 9/27/7                   |
| Applicon Inc. to ALC<br>(Section 10 of January 1, 1971<br>Agreement; no separate note<br>executed) | Variable                    | 21,110                                       | None                            | None                     |
| Information Management Corp. to ALC                                                                | 6,000                       | 6,000                                        | None                            | 6/29/7                   |
| Information Management Corp. to ALC                                                                | 6,000                       | 6,000                                        | None                            | 6/29/7                   |
| Computer Solutions, Inc. to ALC                                                                    | 20,000                      | 20,000                                       | 8%                              | 10/30/7                  |
| Information Systems Corp. to ALC                                                                   | 98,500                      | 97,070                                       | 9.6%                            | 3/1/71-5/7               |
| Davis Computer Systems, Inc. to ALC                                                                | 25,000                      | 25,000                                       | 8.5%                            | 8/1/7                    |
| Davis Computer Systems, Inc. to ALC                                                                | 50,000                      | 50,000                                       | 8.5%                            | 8/1/70-7/7               |
| Davis Computer Systems, Inc. to ALC<br>(Section 2a of February 1, 1970<br>Agreement)               | 25,000                      | 25,000                                       | --                              | 5/1/7                    |
| Roger Haydock to ALC                                                                               | 2,613                       | 1,250                                        | 4%                              | 3/7/69-3/7               |
| William Meier to ALC                                                                               | 6,793                       | 5,005                                        | 4%                              | 3/5/69-3/7               |

Exhibit 1  
Notes Receivable Assigned to  
New Jersey National Bank

.2

May 21, 1971

|                           | <u>Principal<br/>Amount</u> | <u>Unpaid Balance<br/>as of May 20, 1970</u> | <u>Annual Interest<br/>Rate</u> | <u>Maturity<br/>Date</u> |
|---------------------------|-----------------------------|----------------------------------------------|---------------------------------|--------------------------|
| Thomas D. Truitt to ALC   | 2,613                       | 1,250                                        | 4%                              | 3/1/69-3/1/77            |
| Richard M. Colgate to ALC | 2,375                       | 1,000                                        | 4%                              | 2/7/69-2/7/77            |
| Richard M. Colgate to ALC | 3,919                       | 2,625                                        | 4%                              | 12/29/68-12/29           |

The following six (6) notes are subject to terms of an agreement between said parties, Thomas H. Mott, and Applied Logic Corporation dated October 14, 1970, copies of which have been delivered to New Jersey National Bank:

|                           |        |        |    |                 |
|---------------------------|--------|--------|----|-----------------|
| James H. Bennett to ALC   | 13,941 | 10,273 | 4% | 12/29/68-12/29  |
| Thomas F. Droege to ALC   | 6,816  | 5,023  | 4% | 3/22/69-3/22/77 |
| William B. Easton to ALC  | 14,155 | 10,430 | 4% | 12/29/68-12/29  |
| Adolf Futterweit to ALC   | 2,351  | 975    | 4% | 12/28/68-12/28  |
| James R. Guard to ALC     | 7,458  | 5,495  | 4% | 12/28/68-12/28  |
| Francis C. Oglesby to ALC | 2,613  | 1,250  | 4% | 2/28/69-2/28    |



## Schedule A

Page 1

All equipment now owned or hereafter acquired together with replacements, substitutions and the proceeds thereof including but not limited to the following:

## PART I

| Quantity | Item          | Description                        | Serial Number                                                |
|----------|---------------|------------------------------------|--------------------------------------------------------------|
| 6        | MA10          | Core Memories                      | 197, 187, 139<br>194, 207, 193                               |
| 3        | KA10          | Arithmetic Processors              | 111, 105, 117                                                |
| 3        | KM10          | Fast Registers                     | 111, 105, 117                                                |
| 3        | KT10A         | Dual Memory Protectors             | 111, 105, 117                                                |
| 1        | MA10          | Core Memories                      | 152                                                          |
| 1        | KT10A         | KT10 Update Modification           | 5                                                            |
| 100      | PDP-10        | Reference Cards                    | none                                                         |
| 10       | PDP-10        | Interface Manuals                  | none                                                         |
| 18       | PDP-10        | Reference Handbooks                | none                                                         |
| 2        | MC10          | Add Memory Processors              | none                                                         |
| 2        |               | Auto Tape Controllers              | none                                                         |
| 1        | PDP-8         | Central Processor                  | 1491                                                         |
| 6        | PDP-8/<br>680 | Central Processors                 | 1490, 1233, 1303, 1414<br>1493, 1471                         |
| 7        | ASR-33        | Teletypes                          | 202848, 210145,<br>210022, 202834, 202835,<br>202794, 210089 |
| 6        | 681           | Serial Line Adapters               | 127, 60, 122, 121, 119<br>118                                |
| 6        | 685           | Serial Line Multiplexers           | 114, 113, 118, 115, 109<br>60                                |
| 8        | 689M          | Panels                             | 136, 134, 133, 137, 143<br>149, 142, 145                     |
| 6        | Cab 8I        | Cabinets                           | none                                                         |
| 7        | Cab 8B        | Cabinets                           | none                                                         |
| 384      | W750          | Teletype Line Units                | none                                                         |
| 288      | 689MI         | Modem Interface Adapters           | none                                                         |
| 4        | 689MA         | Modem Interface Adapters           | 139, 140, 123, 137                                           |
| 1        | PDP-8         | Software Kit (write-ups & 4 tapes) | none                                                         |
| 1        | 74-           |                                    |                                                              |
|          | 05668         | Indicator Panel #2                 | none                                                         |
| 1        | 74-5534       | Cover Retainer                     | none                                                         |

1. Debtor(s) Name (Last name first if individuals)

APPLIED LOGIC CORPORATION

2. Debtor(s) Complete Mailing Address

Route 206  
Princeton Township, New  
Jersey

(Date, Time, Fee Number and Filing Office)

#3146

3. Secured Party(s) Name and Complete Address(es):

New Jersey National Bank  
One West State Street  
Trenton, New JerseyORIGINAL INCORPORATED  
FILED

MAY 26 1977

4. Assignee(s) of Secured Party(s) Name and Complete Address(es):

William H. Talley  
COUNTY CLERKTHE SPACES TO THE RIGHT  
HAVE BEEN DESIGNED FOR  
USE IN A WINDOW ENVELOPE  
WHEN RETURNING THE SECOND  
COPY TO THE PERSON FILING.

5. This financing statement covers the following types (or items) of property. (Describe. If space inadequate continue on sheets 8 1/2" x 11")

All unencumbered assets, including specifically:  
Fixtures and equipment as listed on Schedule "A", attached.  
All inventory now owned and after acquired inventory.  
All accounts receivable now existing or arising hereafter.  
All notes receivable, as listed on Exhibit #1, attached.

## CHECK (X) THE ITEMS WHICH APPLY

6. ( ) (If collateral is crops). The above described crops are growing or are to be grown on: (Description of real estate and name and address of record owner.) ( ) (If collateral is goods which are or are to become fixtures). The above described goods are affixed or are to be affixed to: (Description of real estate and name and address of record owner.)

7. (X) PROCEEDS of Collateral are also covered.

8. (X) PRODUCTS of Collateral are also covered.

No. of additional sheets presented ( )

9. (X) Filed with: County Recording Officer of Mercer Co. &amp; Somerset County; (X) Secretary of State.

This statement of termination of financing is presented to a Filing Officer for filing pursuant to the Uniform Commercial Code. The Secured Party certifies that he no longer claims a security interest under the financing statement bearing the above file number.

## TERMINATION STATEMENT

Dated: 19

(Signature of Secured Party(s) or Assignee(s) of Record — Not Valid until signed)

FILING OFFICER'S COPY—ACKNOWLEDGMENT — Filing Officer is requested to note file number, date and hour of filing on this copy and return it to the person filing, as an acknowledgment.  
FORM UCC-1 STANDARD FORM — UNIFORM COMMERCIAL CODEALL-STATE OFFICE SUPPLY CO.  
49 EDISON PLACE • NEWARK 2, N. J.

51



EXHIBIT 1NOTES RECEIVABLE ASSIGNED TO NEW JERSEY NATIONAL BANKFOR PURPOSES OF PARAGRAPH 4(a)(4), AGREEMENT OF SEPTEMBER 2, 1970

| FILED                                                                                              | <u>Principal<br/>Amount</u> | <u>Unpaid Balance<br/>as of May 20, 1970</u> | <u>Annual Interest<br/>Rate</u> | <u>Maturity<br/>Date</u> |
|----------------------------------------------------------------------------------------------------|-----------------------------|----------------------------------------------|---------------------------------|--------------------------|
| KPA June 25, 1971<br>JAMES H. SHARPE, Inc. to ALC                                                  | \$ 60,000                   | \$ 60,000                                    | 9%                              | Demanded                 |
| KPA TRENCHARD COUNTY<br>P. OLSON, CLERK<br>Timesharing, Inc. to ALC                                | 20,000                      | 15,000                                       | 8%                              | 12/19/70                 |
| John Keane & Associates to ALC<br>(Timeshared Utility Corp. to ALC)                                | 20,000                      | 15,086                                       | 8%                              | 9/27/70                  |
| Applicon Inc. to ALC<br>(Section 10 of January 1, 1971<br>Agreement; no separate note<br>executed) | Variable                    | 21,110                                       | None                            | None                     |
| Information Management Corp. to ALC                                                                | 6,000                       | 6,000                                        | None                            | 6/29/70                  |
| Information Management Corp. to ALC                                                                | 6,000                       | 6,000                                        | None                            | 6/29/70                  |
| Computer Solutions, Inc. to ALC                                                                    | 20,000                      | 20,000                                       | 8%                              | 10/30/70                 |
| Information Systems Corp. to ALC                                                                   | 98,500                      | 97,070                                       | 9.6%                            | 3/1/71-5/71              |
| Davis Computer Systems, Inc. to ALC                                                                | 25,000                      | 25,000                                       | 8.5%                            | 8/1/71                   |
| Davis Computer Systems, Inc. to ALC                                                                | 50,000                      | 50,000                                       | 8.5%                            | 8/1/70-7/71              |
| Davis Computer Systems, Inc. to ALC<br>(Section 2a of February 1, 1970<br>Agreement)               | 25,000                      | 25,000                                       | --                              | 5/1/71                   |
| Roger Haydock to ALC                                                                               | 2,613                       | 1,250                                        | 4%                              | 3/7/69-3/71              |
| William Meier to ALC                                                                               | 6,793                       | 5,005                                        | 4%                              | 3/5/69-3/71              |

Exhibit 1  
Notes Receivable Assigned to  
New Jersey National Bank

May 21, 1971

|                           | <u>Principal<br/>Amount</u> | <u>Unpaid Balance<br/>as of May 20, 1970</u> | <u>Annual Interest<br/>Rate</u> | <u>Maturity<br/>Date</u> |
|---------------------------|-----------------------------|----------------------------------------------|---------------------------------|--------------------------|
| Thomas D. Truitt to ALC   | 2,613                       | 1,250                                        | 4%                              | 3/1/69-3/1/74            |
| Richard M. Colgate to ALC | 2,375                       | 1,000                                        | 4%                              | 2/7/69-2/7/73            |
| Richard M. Colgate to ALC | 3,919                       | 2,625                                        | 4%                              | 12/29/68-12/29/78        |

The following six (6) notes are subject to terms of an agreement between said parties, Thomas H. Mott, and Applied Logic Corporation dated October 14, 1970, copies of which have been delivered to New Jersey National Bank:

|                           |        |        |    |                   |
|---------------------------|--------|--------|----|-------------------|
| James H. Bennett to ALC   | 13,941 | 10,273 | 4% | 12/29/68-12/29/78 |
| Thomas F. Droege to ALC   | 6,816  | 5,023  | 4% | 3/22/69-3/22/78   |
| William B. Easton to ALC  | 14,155 | 10,430 | 4% | 12/29/68-12/29/78 |
| Adolf Futterweit to ALC   | 2,351  | 975    | 4% | 12/26/68-12/26/78 |
| James R. Guard to ALC     | 7,458  | 5,495  | 4% | 12/28/68-12/28/78 |
| Francis C. Oglesby to ALC | 2,613  | 1,250  | 4% | 2/28/69-2/28/74   |



## Schedule A

Page 1

All equipment now owned or hereafter acquired together with replacements, substitutions and the proceeds thereof including but not limited to the following:

## PART I

| <u>Quantity</u> | <u>Item</u>   | <u>Description</u>                 | <u>Serial Number</u>                                         |
|-----------------|---------------|------------------------------------|--------------------------------------------------------------|
| 6               | MA10          | Core Memories                      | 197,187,139<br>194,207,193                                   |
| 3               | KA10          | Arithmetic Processors              | 111,105,117                                                  |
| 3               | KM10          | Fast Registers                     | 111,105,117                                                  |
| 3               | KT10A         | Dual Memory Protectors             | 111,105,117                                                  |
| 1               | MA10          | Core Memories                      | 152                                                          |
| 1               | KT10A         | KT10 Update Modification           | 5                                                            |
| 100             | PDP-10        | Reference Cards                    | none                                                         |
| 10              | PDP-10        | Interface Manuals                  | none                                                         |
| 18              | PDP-10        | Reference Handbooks                | none                                                         |
| 2               | MC10          | Add Memory Processors              | none                                                         |
| 2               |               | Auto Tape Controllers              | none                                                         |
| 1               | PDP-8         | Central Processor                  | 1491                                                         |
| 6               | PDP-8/<br>680 | Central Processors                 | 1490, 1233, 1303,1414<br>1493, 1471                          |
| 7               | ASR-33        | Teletypes                          | 202848, 210145,<br>210022, 202834, 202835,<br>202794, 210089 |
| 6               | 681           | Serial Line Adapters               | 127, 60, 122, 121, 119<br>118                                |
| 6               | 685           | Serial Line Multiplexers           | 114, 113, 118, 115, 109<br>60                                |
| 8               | 689M          | Panels                             | 136, 134, 133, 137, 143<br>149, 142, 145                     |
| 6               | Cab 8I        | Cabinets                           | none                                                         |
| 7               | Cab 8B        | Cabinets                           | none                                                         |
| 384             | W750          | Teletype Line Units                | none                                                         |
| 288             | 689MI         | Modem Interface Adapters           | none                                                         |
| 4               | 689MA         | Modem Interface Adapters           | 139, 140, 123, 137                                           |
| 1               | PDP-8         | Software Kit (write-ups & 4 tapes) | none                                                         |
| 1               | 74-           |                                    |                                                              |
|                 | 05668         | Indicator Panel #2                 | none                                                         |
| 1               | 74-5534       | Cover Retainer                     | none                                                         |



1. Debtor(s) Name (List Name First if individual)

APPLIED LOGIC CORPORATION

2. Debtor(s) Complete Address(es):

Route 206  
Montgomery Township,  
New JerseyThis Space for use of Filing Officer.  
(Date, Time, File Number and Filing Office)

3. Secured Party(s) Name and Complete Address(es):

New Jersey National Bank  
One West State Street  
Trenton, New Jersey

4. Assignee(s) of Secured Party(s) Name and Complete Address(es):

THE SPACES TO THE RIGHT  
HAVE BEEN DESIGNED FOR  
USE IN A WINDOW ENVELOPE  
WHEN RETURNING THE SECOND  
COPY TO THE PERSON FILING.

5. This financing statement covers the following types (or items) of property: (Describe. If space inadequate continue on sheets 8 1/2" x 11")

All unencumbered assets, including specifically:  
 Fixtures and equipment as listed on Schedule "A", attached.  
 All inventory now owned and after acquired inventory.  
 All accounts receivable now existing or arising hereafter.  
 All notes receivable, as listed on Exhibit #1, attached.

MAY 26 1 43 PM 1971  
 L. R. OLSON, CLERK  
 RECORDED  
 Original

## CHECK ( X ) THE ITEMS WHICH APPLY

6. ( ) (If collateral is crops). The above described crops are growing or are to be ( ) (If collateral is goods which are or are to become fixtures). The above described goods are affixed or are to be affixed to: (Description of real estate and name and address of record owner.)

7. ( X ) PROCEEDS of Collateral are also covered.

8. ( X ) PRODUCTS of Collateral are also covered.

No. of additional sheets presented ( )

9. ( X ) Filed with: County Recording Officer of Mercer Co. &amp; Somerset County; ( X ) Secretary of State.

This statement of termination of financing is presented to a Filing Officer for filing pursuant to the Uniform Commercial Code. The Secured Party certifies that he no longer claims a security interest under the financing statement bearing the above file number.

## TERMINATION STATEMENT

Dated: 19

(Signature of Secured Party(s) or Assignee(s) of Record — Not Valid until signed)

FILING OFFICER'S COPY—ACKNOWLEDGMENT — Filing Officer is requested to note file number, date and hour of filing on this copy and return it to the person filing, as an acknowledgment.

ALL-STATE OFFICE SUPPLY CO.  
 49 EDISON PLACE • NEWARK 2, N. J.

FORM 100-1 &amp; 100-200 FORM — UNIFORM COMMERCIAL CODE



EXHIBIT 1NOTES RECEIVABLE ASSIGNED TO NEW JERSEY NATIONAL BANKFOR PURPOSES OF PARAGRAPH 4(a)(4), AGREEMENT OF SEPTEMBER 2, 1970

FILED

|                                                                                                    | <u>Principal<br/>Amount</u> | <u>Unpaid Balance<br/>as of May 20, 1970</u> | <u>Annual Interest<br/>Rate</u> | <u>Matur<br/>Dat</u> |
|----------------------------------------------------------------------------------------------------|-----------------------------|----------------------------------------------|---------------------------------|----------------------|
| KPA June 2, 1971<br>Shawling, Inc. to ALC                                                          | \$ 60,000                   | \$ 60,000                                    | 9%                              | Dema                 |
| KPA TAMESSET COUNTY<br>Shawling, Inc. to ALC<br>P. OLSON, CLERK                                    | 20,000                      | 15,000                                       | 8%                              | 12/19                |
| John Keane & Associates to ALC<br>(Timeshared Utility Corp. to ALC)                                | 20,000                      | 15,086                                       | 8%                              | 9/27                 |
| Applicon Inc. to ALC<br>(Section 10 of January 1, 1971<br>Agreement; no separate note<br>executed) | Variable                    | 21,110                                       | None                            | Non                  |
| Information Management Corp. to ALC                                                                | 6,000                       | 6,000                                        | None                            | 6/29                 |
| Information Management Corp. to ALC                                                                | 6,000                       | 6,000                                        | None                            | 6/29                 |
| Computer Solutions, Inc. to ALC                                                                    | 20,000                      | 20,000                                       | 8%                              | 10/30                |
| Information Systems Corp. to ALC                                                                   | 98,500                      | 97,070                                       | 9.6%                            | 3/1/71-5             |
| Davis Computer Systems, Inc. to ALC                                                                | 25,000                      | 25,000                                       | 8.5%                            | 8/1,                 |
| Davis Computer Systems, Inc. to ALC                                                                | 50,000                      | 50,000                                       | 8.5%                            | 8/1/70-7             |
| Davis Computer Systems, Inc. to ALC<br>(Section 2a of February 1, 1970<br>Agreement)               | 25,000                      | 25,000                                       | --                              | 5/1,                 |
| Roger Haydock to ALC                                                                               | 2,613                       | 1,250                                        | 4%                              | 3/7/69-3             |
| William Meier to ALC                                                                               | 6,793                       | 5,005                                        | 4%                              | 3/5/69-3             |

## Exhibit 1

Notes Receivable Assigned to  
New Jersey National Bank

.2

May 21, 1971.

|                           | <u>Principal<br/>Amount</u> | <u>Unpaid Balance<br/>as of May 20, 1970</u> | <u>Annual Interest<br/>Rate</u> | <u>Maturity<br/>Date</u> |
|---------------------------|-----------------------------|----------------------------------------------|---------------------------------|--------------------------|
| Thomas D. Truitt to ALC   | 2,613                       | 1,250                                        | 4%                              | 3/1/69-3/1/70            |
| Richard M. Colgate to ALC | 2,375                       | 1,000                                        | 4%                              | 2/7/69-2/7/70            |
| Richard M. Colgate to ALC | 3,919                       | 2,625                                        | 4%                              | 12/29/68-12/29,          |

The following six (6) notes are subject to terms of an agreement between said parties, Thomas H. Mott, and Applied Logic Corporation dated October 14, 1970, copies of which have been delivered to New Jersey National Bank:

|                           |        |        |    |                 |
|---------------------------|--------|--------|----|-----------------|
| James H. Bennett to ALC   | 13,941 | 10,273 | 4% | 12/29/68-12/29, |
| Thomas F. Droege to ALC   | 6,816  | 5,023  | 4% | 3/22/69-3/22/   |
| William B. Easton to ALC  | 14,155 | 10,430 | 4% | 12/29/68-12/29, |
| Adolf Futterweit to ALC   | 2,351  | 975    | 4% | 12/26/68-12/26, |
| James R. Guard to ALC     | 7,458  | 5,495  | 4% | 12/28/68-12/28, |
| Francis C. Oglesby to ALC | 2,613  | 1,250  | 4% | 2/28/69-2/28/   |



Schedule A

Page 1

All equipment now owned or hereafter acquired together with replacements, substitutions and the proceeds thereof including but not limited to the following:

## PART I

| <u>Quantity</u> | <u>Item</u>   | <u>Description</u>                 | <u>Serial Number</u>                                         |
|-----------------|---------------|------------------------------------|--------------------------------------------------------------|
| 6               | MA10          | Core Memories                      | 197,187,139<br>194,207,193                                   |
| 3               | KA10          | Arithmetic Processors              | 111,105,117                                                  |
| 3               | KM10          | Fast Registers                     | 111,105,117                                                  |
| 3               | KT10A         | Dual Memory Protectors             | 111,105,117                                                  |
| 1               | MA10          | Core Memories                      | 152                                                          |
| 1               | KT10A         | KT10 Update Modification           | 5                                                            |
| 100             | PDP-10        | Reference Cards                    | none                                                         |
| 10              | PDP-10        | Interface Manuals                  | none                                                         |
| 18              | PDP-10        | Reference Handbooks                | none                                                         |
| 2               | MC10          | Add Memory Processors              | none                                                         |
| 2               |               | Auto Tape Controllers              | none                                                         |
| 1               | PDP-8         | Central Processor                  | 1491                                                         |
| 6               | PDP-8/<br>680 | Central Processors                 | 1490, 1233, 1303, 1414<br>1493, 1471                         |
| 7               | ASR-33        | Teletypes                          | 202848, 210145,<br>210022, 202834, 202835,<br>202794, 210089 |
| 6               | 681           | Serial Line Adapters               | 127, 60, 122, 121, 119<br>118                                |
| 6               | 685           | Serial Line Multiplexers           | 114, 113, 118, 115, 109<br>60                                |
| 8               | 689M          | Panels                             | 136, 134, 133, 137, 143<br>149, 142, 145                     |
| 6               | Cab 8I        | Cabinets                           | none                                                         |
| 7               | Cab 8B        | Cabinets                           | none                                                         |
| 384             | W750          | Teletype Line Units                | none                                                         |
| 288             | 689MI         | Modem Interface Adapters           | none                                                         |
| 4               | 689MA         | Modem Interface Adapters           | 139, 140, 123, 137                                           |
| 1               | PDP-8         | Software Kit (write-ups & 4 tapes) | none                                                         |
| 1               | 74-           |                                    |                                                              |
|                 | 05668         | Indicator Panel #2                 | none                                                         |
| 1               | 74-5534       | Cover Retainer                     | none                                                         |

IDENTIFYING NO.

10779

This FINANCING STATEMENT is presented to a Filing Officer for filing pursuant to the Uniform Commercial Code

Maturity date  
(if any)

1. Debtor(s) Name (Last Name first if individual):

2. Debtor(s) Complete Address(es):

This Space for use of Filing Officer.  
(Date, Time, File Number and Filing Office)

APPLIED LOGIC CORPORATION

1 Palmer Square  
Princeton, New JerseyCLERK'S OFFICE  
MONTG. CO., MD.

1971 JUN 30 PM 1:49

3. Secured Party(s) Name and Complete Address(es):

MAIL TO: —

New Jersey National Bank  
One West State Street  
Trenton, New Jersey  
Attn: Michael S. Lynch

4. Assignee(s) of Secured Party(s) Name and Complete Address(es):

THE SPACES TO THE RIGHT  
HAVE BEEN DESIGNED FOR  
USE IN A WINDOW ENVELOPE  
WHEN RETURNING THE SECOND  
COPY TO THE PERSON FILING.

5. This financing statement covers the following types (or items) of property: (Describe. If space inadequate continue on sheets 8 1/2" x 11")

All unencumbered assets, including specifically:  
Fixtures and equipment as listed on Schedule "AB", attached.  
All inventory now owned and after acquired inventory.  
All accounts receivable now existing or arising hereafter.  
All notes receivable, as listed on Exhibit #1, attached.

JUN-30-71 PAID 9051 CLK.CT.N.C.

FS BCK

16.00

Location of collateral: 7316 Wisconsin Avenue  
Suite 303  
Bethesda, Maryland 20014This Financing Statement is not subject to a Recordation Tax.

## CHECK (X) THE ITEMS WHICH APPLY

( ) (If collateral is crops). The above described crops are growing or are to be grown on: (Description of real estate and name and address of record owner.) ( ) (If collateral is goods which are or are to become fixtures). The above described goods are affixed or are to be affixed to: (Description of real estate and name and address of record owner.)

(X) PROCEEDS of Collateral are also covered.

8. (X) PRODUCTS of Collateral are also covered.

No. of additional sheets presented ( 4 )

Montgomery County

Recorder of Deeds of the State of New Jersey

( ) Secretary of State.

Signature(s) of Debtor(s)

APPLIED LOGIC CORPORATION

BY: Martin T. Mobach

Martin T. Mobach

Larry G. Settle

Signature(s) of Secured Party(s) or Assignee(s)

NEW JERSEY NATIONAL BANK

BY:

Michael S. Lynch

FILING OFFICER'S COPY — This form of financing statement is approved by the Secretary of State of New Jersey.  
FORM UCC-1 STANDARD FORM — UNIFORM COMMERCIAL CODEFORMS MAY BE PURCHASED FROM:  
ALL-STATE OFFICE SUPPLY CO.  
49 EDISON PLACE • NEWARK 2, N. J.



EXHIBIT 1NOTES RECEIVABLE ASSIGNED TO NEW JERSEY NATIONAL BANKFOR PURPOSES OF PARAGRAPH 4(a)(4), AGREEMENT OF SEPTEMBER 2, 1970

FILED

|                                                                                                      | <u>Principal<br/>Amount</u> | <u>Unpaid Balance<br/>as of May 20, 1970</u> | <u>Annual Interest<br/>Rate</u> | <u>Maturity<br/>Date</u> |
|------------------------------------------------------------------------------------------------------|-----------------------------|----------------------------------------------|---------------------------------|--------------------------|
| KPA June 25, 1971, Inc. to ALC                                                                       | \$ 60,000                   | \$ 60,000                                    | 9%                              | Demand                   |
| KPA TRENCHARD COUNTY, Inc. to ALC<br>P. OLSON, CLERK                                                 | 20,000                      | 15,000                                       | 8%                              | 12/19/70                 |
| John Keane & Associates to ALC<br>(Timeshared Utility Corp. to ALC)                                  | 20,000                      | 15,086                                       | 8%                              | 9/27/70                  |
| Applicon Inc. to ALC<br>(Section 10 of January 1, 1971 ,<br>Agreement; no separate note<br>executed) | Variable                    | 21,110                                       | None                            | None                     |
| Information Management Corp. to ALC                                                                  | 6,000                       | 6,000                                        | None                            | 6/29/71                  |
| Information Management Corp. to ALC                                                                  | 6,000                       | 6,000                                        | None                            | 6/29/72                  |
| Computer Solutions, Inc. to ALC                                                                      | 20,000                      | 20,000                                       | 8%                              | 10/30/70                 |
| Information Systems Corp. to ALC                                                                     | 98,500                      | 97,070                                       | 9.6%                            | 3/1/71-5/1/              |
| Davis Computer Systems, Inc. to ALC                                                                  | 25,000                      | 25,000                                       | 8.5%                            | 8/1/71                   |
| Davis Computer Systems, Inc. to ALC                                                                  | 50,000                      | 50,000                                       | 8.5%                            | 8/1/70-7/1/              |
| Davis Computer Systems, Inc. to ALC<br>(Section 2a of February 1, 1970<br>Agreement)                 | 25,000                      | 25,000                                       | --                              | 5/1/70                   |
| Roger Haydock to ALC                                                                                 | 2,613                       | 1,250                                        | 4%                              | 3/7/69-3/7/              |
| William Meier to ALC                                                                                 | 6,793                       | 5,005                                        | 4%                              | 3/5/69-3/5/              |

## Exhibit 1

Notes Receivable Assigned to  
New Jersey National Bank

.2

May 21, 1971

|                           | <u>Principal<br/>Amount</u> | <u>Unpaid Balance<br/>as of May 20, 1970</u> | <u>Annual Interest<br/>Rate</u> | <u>Maturity<br/>Date</u> |
|---------------------------|-----------------------------|----------------------------------------------|---------------------------------|--------------------------|
| Thomas D. Truitt to ALC   | 2,613                       | 1,250                                        | 4%                              | 3/1/69-3/1/74            |
| Richard M. Colgate to ALC | 2,375                       | 1,000                                        | 4%                              | 2/7/69-2/7/73            |
| Richard M. Colgate to ALC | 3,919                       | 2,625                                        | 4%                              | 12/29/68-12/29/          |

The following six (6) notes are subject to terms of an agreement between said parties, Thomas H. Mott and Applied Logic Corporation dated October 14, 1970, copies of which have been delivered to New Jersey National Bank:

|                           |        |        |    |                 |
|---------------------------|--------|--------|----|-----------------|
| James H. Bennett to ALC   | 13,941 | 10,273 | 4% | 12/29/68-12/29/ |
| Thomas F. Droege to ALC   | 6,816  | 5,023  | 4% | 3/22/69-3/22/7  |
| William B. Easton to ALC  | 14,155 | 10,430 | 4% | 12/29/68-12/29/ |
| Adolf Futterweit to ALC   | 2,351  | 975    | 4% | 12/26/68-12/26/ |
| James R. Guard to ALC     | 7,458  | 5,495  | 4% | 12/28/68-12/28/ |
| Francis C. Oglesby to ALC | 2,613  | 1,250  | 4% | 2/28/69-2/28/   |



Schedule A

Page 1

All equipment now owned or hereafter acquired together with replacements, substitutions and the proceeds thereof including but not limited to the following:

## PART I

| Quantity | Item          | Description                        | Serial Number                                                |
|----------|---------------|------------------------------------|--------------------------------------------------------------|
| 6        | MA10          | Core Memories                      | 197,187,139<br>194,207,193                                   |
| 3        | KA10          | Arithmetic Processors              | 111,105,117                                                  |
| 3        | KM10          | Fast Registers                     | 111,105,117                                                  |
| 3        | KT10A         | Dual Memory Protectors             | 111,105,117                                                  |
| 1        | MA10          | Core Memories                      | 152                                                          |
| 1        | KT10A         | K110 Update Modification           | 5                                                            |
| 100      | PDP-10        | Reference Cards                    | none                                                         |
| 10       | PDP-10        | Interface Manuals                  | none                                                         |
| 18       | PDP-10        | Reference Handbooks                | none                                                         |
| 2        | MC10          | Add Memory Processors              | none                                                         |
| 2        |               | Auto Tape Controllers              | none                                                         |
| 1        | PDP-8         | Central Processor                  | 1491                                                         |
| 6        | PDP-8/<br>680 | Central Processors                 | 1490, 1233, 1303,1414<br>1493, 1471                          |
| 7        | ASR-33        | Teletypes                          | 202848, 210145,<br>210022, 202834, 202835,<br>202794, 210089 |
| 6        | 681           | Serial Line Adapters               | 127, 60, 122, 121, 119<br>118                                |
| 6        | 685           | Serial Line Multiplexers           | 114, 113, 118, 115, 109<br>60                                |
| 8        | 689M          | Panels                             | 136, 134, 133, 137, 143<br>149, 142, 145                     |
| 6        | Cab 8I        | Cabinets                           | none                                                         |
| 7        | Cab 8B        | Cabinets                           | none                                                         |
| 384      | W750          | Teletype Line Units                | none                                                         |
| 288      | 689MI         | Modem Interface Adapters           | none                                                         |
| 4        | 689MA         | Modem Interface Adapters           | 139, 140, 123, 137                                           |
| 1        | PDP-8         | Software Kit (write-ups & 4 tapes) | none                                                         |
| 1        | 74-           |                                    |                                                              |
|          | 05668         | Indicator Panel #2                 | none                                                         |
| 1        | 74-5534       | Cover Retainer                     | none                                                         |



1. Debtor(s) Name (Last Name First if Individual):

2. Debtor(s) Complete Address(es):

This Space for use of Filing Officer.  
(Date, Time, File Number and Filing Office)

APPLIED LOGIC CORPORATION

One Palmer Square  
Princeton, New Jersey 08540

3. Secured Party(s) Name and Complete Address(es):

New Jersey National Bank  
One West State Street  
Trenton, New Jersey

4. Assignee(s) of Secured Party(s) Name and Complete Address(es):

THE SPACES TO THE RIGHT  
HAVE BEEN DESIGNED FOR  
USE IN A WINDOW ENVELOPE  
WHEN RETURNING THE SECOND  
COPY TO THE PERSON FILING.

297603

OFFICIAL RECORD

NEW JERSEY NATIONAL BANK

JUN 12 11 11 AM '71

COPIES RECEIVED

3.00 PER BDS.

5. This financing statement covers the following types (or items) of property: (Describe, if space inadequate continue on sheets 8 1/2" x 11")

-All unencumbered assets, including specifically:

fixtures and equipment as listed on Schedule "A", attached.

all inventory now owned and after acquired inventory.

all accounts receivable now existing or arising hereafter.

all notes receivable, as listed on Exhibit #1, attached.

## CHECK ( X ) THE ITEMS WHICH APPLY

6. ( ) (If collateral is crops). The above described crops are growing or are to be grown on. (Description of real estate and name and address of record owner.)

( ) (If collateral is goods which are or are to become fixtures). The above described goods are affixed or are to be affixed to: (Description of real estate and name and address of record owner).

7. ( X ) PROCEEDS of Collateral are covered.

8. ( X ) PRODUCTS of Collateral are also covered.

No. of additional sheets presented ( 4 )

9. ( X ) Filed with: County Recording Officer

Hasshoe  
Mercer & Somerset

County; ( ) Secretary of State.

Signature(s) of Debtor(s)  
APPLIED LOGIC CORPORATIONSignature(s) of Secured Party(s) or Assignee(s)  
NEW JERSEY NATIONAL BANKBY: [Signature]BY: [Signature]

SECURED PARTY'S COPY — This form of financing statement is approved by the Secretary of State of New Jersey.

FORM UCC-1 STANDARD FORM — UNIFORM COMMERCIAL CODE

THESE FORMS MAY BE PURCHASED FROM:

ALL-STATE OFFICE SUPPLY CO.

49 ERISON PLACE • NEWARK 2, N. J.



FOR PURPOSES OF PARAGRAPH 4(a)(4), AGREEMENT OF SEPTEMBER 2, 1970

mel shabing, '71

A-57



Exhibit 1

Notes Receivable Assigned to  
New Jersey National Bank

.2

May 21, 1971

|                           | <u>Principal<br/>Amount</u> | <u>Unpaid Balance<br/>as of May 20, 1970</u> | <u>Annual Interest<br/>Rate</u> | <u>Maturity<br/>Date</u> |
|---------------------------|-----------------------------|----------------------------------------------|---------------------------------|--------------------------|
| Thomas D. Truitt to ALC   | 2,613                       | 1,250                                        | 4%                              | 3/1/69-3/1/74            |
| Richard M. Colgate to ALC | 2,375                       | 1,000                                        | 4%                              | 2/7/69-2/7/73            |
| Richard M. Colgate to ALC | 3,919                       | 2,625                                        | 4%                              | 12/29/68-12/29/7         |

The following six (6) notes are subject to terms of an agreement between said parties, Thomas H. Mott, and Applied Logic Corporation dated October 14, 1970, copies of which have been delivered to New Jersey National Bank:

|                           |        |        |    |                  |
|---------------------------|--------|--------|----|------------------|
| James H. Bennett to ALC   | 13,941 | 10,273 | 4% | 12/29/68-12/29/7 |
| Thomas F. Droege to ALC   | 6,816  | 5,023  | 4% | 3/22/69-3/22/7   |
| William B. Easton to ALC  | 14,155 | 10,430 | 4% | 12/29/68-12/29/7 |
| Adolf Futterweit to ALC   | 2,351  | 975    | 4% | 12/26/68-12/26/7 |
| James R. Guard to ALC     | 7,458  | 5,495  | 4% | 12/28/68-12/28/7 |
| Francis C. Oglesby to ALC | 2,613  | 1,250  | 4% | 2/28/69-2/28/7   |



## Schedule A

Page 1

All equipment now owned or hereafter acquired together with replacements, substitutions and the proceeds thereof including but not limited to the following:

## PART I

| <u>Quantity</u> | <u>Item</u>   | <u>Description</u>                 | <u>Serial Number</u>                                         |
|-----------------|---------------|------------------------------------|--------------------------------------------------------------|
| 6               | MA10          | Core Memories                      | 197,187,139<br>194,207,193                                   |
| 3               | KA10          | Arithmetic Processors              | 111,105,117                                                  |
| 3               | KM10          | Fast Registers                     | 111,105,117                                                  |
| 3               | KT10A         | Dual Memory Protectors             | 111,105,117                                                  |
| 1               | MA10          | Core Memories                      | 152                                                          |
| 1               | KT10A         | KT10 Update Modification           | 5                                                            |
| 100             | PDP-10        | Reference Cards                    | none                                                         |
| 10              | PDP-10        | Interface Manuals                  | none                                                         |
| 18              | PDP-10        | Reference Handbooks                | none                                                         |
| 2               | MC10          | Add Memory Processors              | none                                                         |
| 2               |               | Auto Tape Controllers              | none                                                         |
| 1               | PDP-8         | Central Processor                  | 1491                                                         |
| 6               | PDP-8/<br>680 | Central Processors                 | 1490, 1233, 1303,1414<br>1493, 1471                          |
| 7               | ASR-33        | Teletypes                          | 202848, 210145,<br>210022, 202834, 202835,<br>202794, 210089 |
| 6               | 681           | Serial Line Adapters               | 127, 60, 122, 121, 119<br>118                                |
| 6               | 685           | Serial Line Multiplexers           | 114, 113, 118, 115, 109<br>60                                |
| 8               | 689M          | Panels                             | 136, 134, 133, 137, 143<br>149, 142, 145                     |
| 6               | Cab 8I        | Cabinets                           | none                                                         |
| 7               | Cab 8B        | Cabinets                           | none                                                         |
| 384             | W750          | Teletype Line Units                | none                                                         |
| 288             | 689MI         | Modem Interface Adapters           | none                                                         |
| 4               | 689MA         | Modem Interface Adapters           | 139, 140, 123, 137                                           |
| 1               | PD7-8         | Software Kit (write-ups & 4 tapes) | none                                                         |
| 1               | 74-           |                                    |                                                              |
|                 | 05568         | Indicator Panel #2                 | none                                                         |
| 1               | 74-5534       | Cover Retainer                     | none                                                         |



## RECAPITALIZATION AGREEMENT

THIS AGREEMENT made this 15th day of September, 1971  
by and between APPLIED LOGIC CORPORATION, a New Jersey corporation having its principal offices at One Palmer Square, Princeton, New Jersey 08540 (hereafter "ALC"); the following banking institutions (hereafter sometimes collectively referred to as the "Banks"):

Chase Manhattan Bank, One Chase Manhattan Plaza, New York City 10005  
First National City Bank, 399 Park Avenue, New York City 10017  
First National Bank of Princeton, 90 Nassau Street, Princeton, New Jersey 08540  
New Jersey National Bank, One West State Street, Trenton, New Jersey 08608;

the following leasing companies (hereafter sometimes collectively referred to as the "Lessors"):

A/L Lessors, 9 Undercliff Terrace, West Orange, New Jersey 07052  
Boston Leasing Corporation, 35 Congress Street, Boston, Massachusetts 02109

CIC Leasing Corp., the entity into which Coburn Leasing Co. Inc., has been merged, 107 Delaware Avenue, Buffalo, New York 14202 (hereinafter "CIC Leasing Corp.")

C.I.T. Financial Services Corporation (formerly Universal C.I.T. Credit Corporation) acting herein through its agent C.I.T. Leasing Corporation, 650 Madison Avenue, New York City 10022

Colgate Research & Development Company, One Palmer Square, Princeton, New Jersey 08540;

and

DIGITAL EQUIPMENT CORPORATION, 146 Main Street, Maynard, Massachusetts 01754

(hereafter "DEC");

and

BRYANT COMPUTER PRODUCTS, 850 Ladd Road, Walled Lake, Michigan 48098

(hereafter "Bryant");

## WITNESSETH:

WHEREAS ALC is indebted to the Banks and Bryant and owes rental payments to the Lessors, in varying and substantial amounts, under leases directly with ALC as lessee and pursuant to agreements related to leases with ALC's Facilities Managers, hereafter referred



to as "Rental Payments", and the parties hereto entered into a certain agreement dated September 2, 1970 (hereafter the "Financing Agreement") providing for the payment of said indebtedness and Rental Payments, and

WHEREAS the parties hereto desire to provide for the payment of said indebtedness and Rental Payments by substituting the provisions of this Recapitalization Agreement (hereinafter the "Agreement") for the terms and provisions of the Financing Agreement, which is hereby amended;

NOW THEREFORE, in consideration of the mutual covenants, terms, conditions, obligations and forbearances herein set forth, the parties hereto agree as follows:

1. Definitions

Unless elsewhere specifically provided to the contrary, the following terms shall apply as hereafter defined wherever referred to in this Agreement:

(a) "Total Debt Principal" The term "Total Debt Principal" shall indicate the sum of (a) the principal of the \$300,000 note and the \$1,000,000 sum of notes (as defined in Paragraph 2 of the Financing Agreement) together with interest thereon where applicable as of the close of business on March 31, 1971 and (b) the amount owed to Bryant. The amount of the Total Debt Principal is as indicated in Schedule 1 attached hereto.



(b) "Debt Principal" The term "Debt Principal" shall include, as to each Bank or Bryant, the portion of the Total Debt Principal due to such party from ALC as indicated in Schedule 1 attached hereto.

(c) "Total Rental Payments" The term "Total Rental Payments" indicate the sum of all Rental Payments due or to become due to the Lessors under their leases directly with ALC as lessee and with ALC's Facilities Managers together with interest as of the close of business on March 31, 1971 on the Deferred Payments (as defined in Paragraph 2 of the Financing Agreement). The amount of the Total Rental Payments is as indicated on Schedule 2 attached hereto.

(d) "Guaranteed Bank Loan" The term "Guaranteed Bank Loan" shall refer to the \$750,000 secured loan borrowed by ALC pursuant to Paragraph 4 of the Financing Agreement.

(e) "Cash Flow" The term "Cash Flow" shall refer to the relationship between ALC's cash receipts and cash expenditures. "Cash Flow" may be described as "Positive Cash Flow", which shall mean the excess of ALC's cash receipts over cash expenditures, "Negative Cash Flow" which shall mean the excess of ALC's cash expenditures over cash receipts and "Break Even" which shall refer to a period when cash receipts equal cash expenditures. "Cash Receipts" shall mean cash received by ALC, but shall not include the proceeds of any borrowing or any sale of securities of ALC. "Cash Expenditures" shall mean cash paid by ALC and shall include all interest which ALC is required to pay under this Agreement, but shall exclude payments due on Remaining Rents as set forth in Schedule 2 and payments



to be made to a special account for settlement of Close Out Debt (as hereinafter defined) and remittances to be made to Lessors hereunder for insurance, taxes, and other fees pursuant to the provisions contained under the Paragraphs 10 and 12 of this Agreement. The computation shall be made in accordance with generally accepted accounting principles applied on a consistent basis. In the event of a dispute concerning the foregoing, the dispute shall be resolved by an independent public accounting firm of national standing (selected by a majority in amount of the holders of the Total Debt Principal and Total Rental Payments) whose decision shall be final. ALC agrees to make available to such accounting firm its financial records and such other information within its control as is deemed necessary by such accounting firm to make the computation. If ALC's auditors are used to resolve a dispute concerning the meaning of Cash Flow, ALC shall pay the fees and expenses of such accounting firm; otherwise, the holder or holders disputing ALC's computation shall pay such fees and expenses.

## 2. Corporate Approval

ALC shall convene, as soon as practicable after execution of this Agreement by all parties hereto, special meetings of its Board of Directors and its Shareholders, in accordance with the requirements of its By-Laws, of the laws of New Jersey, and of the laws and regulations administered by the Securities and Exchange Commission:

(a) to approve cancellation of all of the shares of common stock of ALC outstanding on the date of this Agreement, and reissuance of said shares within a reasonable period thereafter at the

rate of one (1) new share for each five (5) old shares held on the date of this Agreement, which date shall be deemed the record date for closing of the list of Shareholders for all purposes related to said special meeting and for purposes of implementation of this Agreement. Fractional shares shall not be issued, with fractions of .50 or over being deemed a full share, and fractions of less than .50 to be disregarded, and

(b) to approve, ratify and confirm this Agreement in its entirety.

In the event requisite approval by both the ALC Board of Directors and its Shareholders at said special meetings (or any lawful adjournment or postponement thereof) is not obtained, this Agreement shall become null and void and have no force or effect upon any party hereto, and their respective rights and obligations shall become reinstated as they existed prior to the execution of this Agreement.

### 3. Working Capital

ALC shall use its best efforts to raise a minimum of \$500,000 in cash as working capital. If ALC fails to raise \$300,000 of such working capital within sixty (60) days after the execution of this Agreement, any party to this Agreement may by written notice to the other parties hereto declare this Agreement to be null and void and this Agreement shall thereafter have no force or effect upon any party hereto and their respective rights and obligations shall become reinstated as they existed prior to the execution of this Agreement. If ALC fails to raise the remaining \$200,000 of such working capital within six (6) months after the execution of this Agreement there may



be acceleration of ALC's obligations as provided for in Paragraph 17 hereof. "Working Capital" shall mean excess of current assets over current liabilities including the necessary adjustments which would represent the full effect of this Agreement, as determined in accordance with generally accepted accounting principles consistently applied. Any dispute concerning meaning of working capital shall be determined in the manner for the resolution of dispute concerning Cash Flow as set forth in Paragraph 1(e) hereof.

4. Reduction of Total Debt Principal

Provided that the Board of Directors and Shareholders have approved the transaction as required by Paragraph 2 above and ALC has raised the \$300,000 of working capital as required by Paragraph 3 above, the Total Debt Principal shall be reduced as follows:

(a) The amount of Debt Principal for each Bank and for Bryant indicated on Schedule 1 for "Debt Principal Forgiven" shall be forgiven upon the issuance to such party of that number of shares of post-reverse-split common stock of ALC indicated on Schedule 1, and/or upon the issuance of non-interest-bearing subordinated promissory notes ("Subordinated Notes") in the face amount as indicated on Schedule 1, providing for waiver of demand, notice and protest and subordination to all bank debt and to the Close Out Debt (as hereafter defined) in a form to be approved by the parties hereto. The principal of the Subordinated Notes shall be payable as set forth in Paragraph 8 hereof.

(b) The amount of Debt Principal for each Bank or for Bryant indicated on Schedule 1 as "Close Out Debt" (being fifty percent (50%) of each party's respective Debt Principal) shall remain

outstanding and owed by ALC to the Banks and Payant under their respective agreements, notes and loan agreements and shall bear interest as follows:

(1) July 1, 1971 through December 31, 1971 at the rate of three percent (3%) per annum on the unpaid balance which shall be accrued and become part of the Close Out Debt;

(2) January 1, 1972 and thereafter under the Close Out Debt is paid in full at the following rates on the unpaid balance which shall be paid monthly in arrears commencing February 10, 1972 and on the tenth day of each month thereafter:

|                    |              |
|--------------------|--------------|
| Calendar Year 1972 | 3% per annum |
| Calendar Year 1973 | 4% per annum |
| Calendar Year 1974 | 5% per annum |
| Calendar Year 1975 | 6% per annum |
| and thereafter     |              |

provided however, that the rate of interest shall at no time be greater than the prime rate for unsecured commercial loans prevailing in the Federal Reserve District in which Princeton, New Jersey is situated ("Prime Rate").

The principal of the Close Out Debt shall be payable as set forth in Paragraph 8 hereof.

##### 5. Reduction of Total Rental Payments

Provided that the Board of Directors and Shareholders have approved the transaction as required by Paragraph 2 above and ALC has raised the \$300,000 of working capital as required by Paragraph 3 above, the Total Rental Payments shall be reduced as follows:

(a) The amount of Total Rental Payments for each Lessor indicated on Schedule 2 for "Rental Payments Forgiven" (representing all overdue Rental Payments, interest thereon and a portion of future Rental Payments) shall be forgiven upon the issuance to such Lessor



of that number of shares of post-reverse-split common stock of ALC as indicated on Schedule 2, and/or upon the issuance of Subordinated Notes (as defined in Paragraph 4(a) above) in the face amount as indicated on Schedule 2. The principal of the Subordinated Notes shall be payable as set forth in Paragraph 8 hereof.

(b) The amount of Total Rental Payments not forgiven under 5(a) above (hereafter "Remaining Rent") shall be payable in equal monthly installments commencing with the month of April 1971 over the remaining term of each lease as indicated on Schedule 2. Remaining Rent shall not be paid directly by ALC to a party which is a holder of Close Out Debt, but will be paid through the special account referred to in Paragraph 8 hereof. Any amount of Remaining Rent not paid on monthly payment dates shall be considered Close Out Debt which shall be owed by ALC to the Lessors and shall bear interest as indicated in Paragraph 4(b) above. Any interest owed on this Close Out Debt for the months of April 1971 through January 1972 shall be paid by ALC to the Lessors on or before February 10, 1972 and thereafter interest shall be paid monthly in arrears commencing March 10, 1972 and on the tenth day of each month thereafter. The principal of such Close Out Debt shall be payable as set forth in Paragraph 8 hereof.

#### 6. Appraisal

The parties hereto acknowledge that the shares of post-reverse-split common stock of ALC and of Subordinated Notes and warrants to be issued by ALC pursuant to Paragraph 9 hereto do not have a value equal to the amount of debt and Rental Payments which are to be forgiven by the Banks, Lessors and Bryant as hereinbefore provided. The parties

shall obtain an appraisal of such shares, Subordinated Notes and warrants by not less than one investment banker and shall attempt to agree upon the valuation of each thereof. If they are unable to agree by March 1, 1972, the average of the appraisals by investment bankers shall be binding. Such valuation shall be used by all parties for accounting and tax purposes.

#### 7. Payment of Guaranteed Bank Loans

Commencing July 1, 1971, interest on the Guaranteed Bank Loan shall be at the Prime Rate on the unpaid principal balance in arrears payable on or before the 10th day of each month. The principal of the Guaranteed Bank Loan shall be payable as set forth in Paragraph 8.

#### 8. Payments of Principal

ALC shall make payments to a special account maintained with the New Jersey National Bank not later than twenty (20) days after the end of any month in which ALC has a Positive Cash Flow, commencing with respect to the month of July 1972, in the amount of fifty percent (50%) of (1) the Positive Cash Flow of ALC for such month, or (2) the average Cash Flow, if positive, for the preceding three (3) months, whichever is the lesser amount ("Creditor's Portion"). Such funds shall be used by ALC within ten (10) days after deposit to pay the principal of the Close Out Debt in accordance with the following priorities:

(a) Category 1 claims as set forth in Schedule 1 (consisting of an amount of Remaining Rent, a portion of ALC's indebtedness to Bryant and a portion of the Guaranteed Bank Loan) shall be paid prior to payment of any other Category. Payments shall be apportioned



between the Lessors, the Banks and Bryant in accordance with their original amounts included in Category 1. The Lessor's portion of such payments shall be apportioned in accordance with their balances outstanding from time to time under Category 1 and payments to the Banks with respect to the \$100,000 portion of the Guaranteed Bank Loan shall be apportioned in accordance with their respective secured interests in the \$100,000 loan to ALC on May 25, 1971 as the final installment on the \$750,000 line of credit provided for in the Financing Agreement. ALC, at its sole option, may elect to make additional payments with respect to the \$100,000 included in Category 1 on account of the Guaranteed Bank Loan from the following sources of funds:

- (i) the fifty percent (50%) of Positive Cash Flow remaining after payment of the Creditor's Portion;
- (ii) proceeds from the sale of assets subject to a security interest held by one or more of the Banks;
- (iii) proceeds from any bank line of credit or loan unsecured or secured by accounts receivable of ALC, which may be subsequently negotiated by ALC.

The Banks, at their sole option, may elect to convert the \$100,000 loan, secured in accordance with the provisions of Paragraph (4) of the Financing Agreement, to an Accounts Receivable Loan secured by the same security and entitled to the same rights of payment as set forth above, in the event that ALC's Accounts Receivable, which are presently partial security under said loan, diminish to the sum of \$200,000 of ALC's Accounts Receivable due within sixty (60) days. ALC shall report monthly to the Banks a current aging of its Accounts Receivable.

(b) After payment in full of Category 1, Category 2 claims as set forth in Schedule 1 (consisting of the remaining portion of the Close Out Debt) in the aggregate amount of \$3,444,519.93 shall be paid prior to any payment on account of Category 3. Payments shall be apportioned among the parties in accordance with their respective original amounts under Category 2.

(c) After payment in full of Category 1 and 2, Category 3 claims as set forth on Schedule 1 (consisting of the Subordinated Notes and the remaining portion of the Guaranteed Bank Loan) in the aggregate amount of \$2,235,139.76 shall be paid. Payments shall be apportioned among the parties in accordance with their original amounts under Category 3.

No prepayments of Remaining Rent will be made. In the event all Remaining Rent included in Close Out Debt is paid, the excess remaining in the special account will be held for payment of future monthly Rental Payments up to a maximum of three future Rental Payments. Once the maximum is reached and maintained, ALC shall no longer be required to make deposits in excess of the monthly Rental Payments for such month. All interest on the account will belong to ALC.

#### 9. Warrants

All outstanding unexercised warrants and options issued to any party hereto prior to the date of this Agreement entitling the holder thereof to purchase ALC common stock, whenever issued and for whatever purpose, shall be exercised within ten (10) days of the date of this Agreement or be deemed cancelled and of no further force or effect. ALC agrees to issue to the parties hereto warrants to purchase an aggregate of 200,000 post-reverse-split shares of ALC common stock at a price of \$2.50 per share exercisable not later than



June 30, 1980, or six (6) months after payment in full by ALC of the payments set forth in Paragraph 8(b) hereof, whichever event later occurs, provided that any party or parties hereto may at its or their option, decline to accept such warrants, in full or in part. The warrants to be issued shall be apportioned among the parties as set forth in Schedules 1 and 3. The warrants shall be in the form of warrants approved for issuance under the Financing Agreement.

10. Leases

Nothing contained in this Agreement or the Financing Agreement is intended to affect the obligations of ALC to the Lessors pursuant to the several respective leasing agreements and other agreements now in force between ALC and/or ALC's Facility Managers and the Lessors except that the entire amount of Rental Payments and interest thereon due or to become due under such leases shall be paid as set forth in this Agreement. Each of the leases shall expire in accordance with its terms, notwithstanding the fact that Rental Payments due thereunder may remain unpaid at such time. ALC agrees to perform all obligations of ALC to the Lessors pursuant to their respective leases including, without limitation, ALC's obligations under said leases to maintain insurance and to pay various taxes and other fees as set forth therein; provided however, no lease shall be in default for non-payment of rent unless the lessor thereunder would be entitled to accelerate payments under Paragraph 17 of this Agreement.

11. Security Interests

Nothing contained in this Agreement or the Financing Agreement is intended to affect any security interest held by any Bank or Lessor. ALC agrees to perform all obligations of ALC to the Banks pursuant to their respective notes, loan arrangements and security agreements.

12. Facilities Management Agreement

CIC Leasing Corp. hereby agrees to release each Facilities Manager of ALC from the obligations it incurred in favor of CIC Leasing Corp. under the terms of certain lease agreements with CIC Leasing Corp. for the rental of various pieces of equipment purchased by CIC Leasing Corp. from ALC when a majority of the Board of Directors and of the Shareholders all duly approve and consent to this Agreement and all of its terms in accordance with the requirements of the By-Laws of Applied Logic Corporation, of the laws of the State of New Jersey, and of the laws, regulations, and rulings administered by the Securities and Exchange Commission, a minimum of \$300,000 in cash is raised within sixty (60) days from the date of execution of this Agreement, a final release in form and substance acceptable to CIC Leasing Corp. and to ALC is executed by each Facilities Manager separately releasing CIC Leasing Corp. and ALC from any and all obligations, liabilities, claims, demands, resolutions, promises, courses of action, etc., whatsoever, whether past, present, or hereafter arising out of any leasing agreement entered into with CIC Leasing Corp. or ALC, or other agreements between one or more of such Facilities Managers prior to January 1, 1971, and ALC duly executes such agreements, notes, UCC-1 financing statements, security agreements and other writings as shall be acceptable to CIC Leasing Corp. with respect to the amount of indebtedness set forth in Schedule 1 and owed to CIC Leasing Corp.

However, ALC agrees that in no event shall such release by CIC Leasing Corp. of ALC Facilities Managers release ALC of its obligations and responsibilities as set forth in the various agreements



pertaining to the purchase, from time to time, by CIC Leasing Corp. from ALC of the latter's equipment and leasing of the same by CIC Leasing Corp. to entities designated by ALC.

ALC acknowledges its responsibilities and obligations to continue reimbursing and paying CIC Leasing Corp. for various taxes due on the rental of the above-described equipment, the lease agreements and/or the payments due thereunder; to keep the leased equipment insured and to otherwise perform and observe all the obligations and responsibilities of the Lessees as set forth in each lease.

13. Subordinated Convertible Promissory Notes

The Subordinated Convertible Promissory Notes issued by ALC on September 14, 1970 pursuant to Paragraph 5 of the Financing Agreement shall continue in full force and effect, provided however that the common stock into which such notes are convertible shall be the common stock of ALC prior to the reverse stock split contemplated by the Agreement, and further provided that said notes of September 14, 1970 shall be subordinated for payment to the Notes issued pursuant to this Agreement, as provided in the terms of said Notes of September 14, 1970. Upon occurrence of the reverse stock split contemplated by this Agreement, the principal sum of such notes may be converted at the rate of \$2.50 of principal sum for each share of common stock.

14. Board of Directors

Each of the parties to this Agreement agree to use their respective best efforts, to the extent permitted by law, to cause the Board of Directors of ALC to nominate and to persuade the shareholders of ALC to elect, at the special meeting of Shareholders referred to in Paragraph 2 hereof and each annual meeting until the Close Out

Debt, Subordinated Notes and Guaranteed Bank Loan are paid in full,  
a Board of Directors, consisting of the following

- A majority of persons designated by the Lessors  
(50% plus one (1) person)
- 1 Person designated by the Banks
- Additional person(s) from the business community  
subject to the consent of the Banks and Lessors
- 1 Person who shall be the Chief Executive Officer of ALC.

Designation of or consent to Directors where required by  
the Lessors shall require the approval of the holders of seventy-five  
percent (75%) in amount of the Total Rental Payments.

#### 15. Representations

ALC represents and warrants:

(a) The Summary of Receipts and Disbursements dated May 31, 1971 and all other financial statements delivered to the parties hereto have been prepared in accordance with generally accepted accounting principles consistently applied and were accurate and correct statements of the financial information contained therein as of the date of delivery.

(b) The capitalization of ALC is as set forth on Schedule 3, attached hereto.

(c) ALC has presented to the Creditor Committee established under the Financing Agreement all material information concerning the financial condition and business prospects of the Company and has made no untrue or misleading statement of fact to the parties hereto, orally or in writing, which is relevant for consideration in connection with the execution of this Agreement.

#### 16. Dividends

ALC agrees that it shall declare no cash dividends with respect to its common stock unless and until the Close Out Debt,



Subordinated Notes and Guaranteed Bank Loan are paid in full. ALC further agrees that it shall not take any action during the term of this Agreement which would result in C.I.T.'s proportional ownership exceeding 5% of the total equity ownership outstanding, including options and shares set aside for working capital, but excluding warrants.

17. Acceleration of Notes

If any one of the following events occurs,

(a) ALC fails to raise the remaining \$200,000 in working capital required by Paragraph 3 hereof;

(b) any representation made by ALC in connection with the Agreement shall be false or incorrect in any material respect as of the date made;

(c) ALC fails to maintain a positive operational cash flow as follows:

| <u>Cash Flow</u> | <u>Period From<br/>Execution of Agreement</u>                                                                                   |
|------------------|---------------------------------------------------------------------------------------------------------------------------------|
| Break Even       | in the 9th month or in the average of the 8th and 9th month                                                                     |
| \$100,000        | cumulatively for the period starting with the 10th month and ending with the 21st month                                         |
| \$300,000        | cumulatively for the period starting with the 22nd month and ending with the 33rd month and for each 12 month period thereafter |

"Positive operational cash flow" shall mean the excess of cash receipts over cash expenditures excluding from cash expenditures amounts expended for research projects specifically authorized by the Board of Directors. "Positive operational cash flow" shall be computed

and any disputes resolved in the manner set forth in Paragraph 1(e);

(d) ALC fails to pay the interest or principal on the Close Out Debt, Subordinated Notes or Guaranteed Bank Loan when due and such failure continues for ten (10) days thereafter;

(e) ALC fails to perform or violates any covenant or agreement contained in this Agreement;

(f) ALC makes assignment for the benefit of creditors, files a petition in bankruptcy or institutes any proceedings under any law relating to bankruptcy, bankruptcy reorganization, insolvency or other law providing for the relief of debtors;

(g) Any petition in bankruptcy or other proceeding under any law relating to bankruptcy, bankruptcy reorganization, insolvency or relief of debtors is instituted against ALC and such proceeding is not dismissed within sixty (60) days from the date of institution; Then, in each event, any party to this Agreement who is owed a portion of the Close Out Debt or a holder of a Subordinated Note or note issued in connection with the Guaranteed Bank Loan may by written notice to ALC and the other parties hereto declare the entire balance of principal and interest on such debt or note to be immediately due and payable.

#### 18. Option Agreement

Martin T. Mobach agrees to the cancellation of all options for common stock of ALC heretofore issued to him.

#### 19. Further Agreements

Promptly after the execution of this Agreement, ALC shall furnish each party hereto with an opinion of counsel as to the organization, existence, good standing, and corporate power of ALC; the execution, validity, and binding nature of this Agreement and the



notes issued hereunder; and the effect of the execution and performance of this Agreement on other obligations and instruments applicable to ALC. ALC shall also furnish each party to this Agreement with a certified copy of the resolutions of its Board of Directors and Shareholders authorizing the execution and performance of this Agreement. ALC shall execute such further instruments and documents which any party hereto shall deem necessary or advisable in order more effectively to carry out the provisions of this Agreement, and all such instruments and documents shall be satisfactory in form and substance to counsel for each party hereto.

20. Notices

Any notice required or permitted to be given hereunder shall be deemed duly given if sent by certified mail, postage prepaid, addressed to any party to this Agreement at its address as it appears on the first page of this Agreement or at such other address as may be furnished in writing by any such party by written notice to all other parties to this Agreement.

21. Non-Waiver

No failure on the part of any of the Lessors, the Banks, DEC, or Bryant to exercise, and no delay in exercising, any right or remedy hereunder shall operate as a waiver thereof.

22. Security Agreements and Financing Statements

The Security Agreements and Financing Statements executed by the parties to the Financing Agreement of September 2, 1970, remain in full force and effect and are incorporated by reference in this Agreement.

23. Governing Law

This Agreement shall be governed by the laws of the State of New Jersey.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the day and year first above written.

APPLIED LOGIC CORPORATION

By *Martin T. Mobach*  
President

CHASE MANHATTAN BANK

By *Arthur W. [Signature]*  
2nd Vice President

FIRST NATIONAL CITY BANK

By *[Signature]*

NEW JERSEY NATIONAL BANK

By *W. J. [Signature]*

FIRST NATIONAL BANK OF PRINCETON

By *J. S. [Signature]*  
Vice President

BRYANT COMPUTER PRODUCTS

By *[Signature]*  
President

A/L LESSORS

By *Robert H. [Signature]*  
Managing Partner

BOSTON LEASING CORPORATION

By *Edward C. [Signature]*  
Director

CIC LEASING CORP.

By *[Signature]*  
Vice President

C.I.T. FINANCIAL SERVICES CORPORATION

By C.I.T. LEASING CORPORATION, Agent

By *[Signature]* V.P.

COLGATE RESEARCH &amp; DEVELOPMENT CO.

By *[Signature]*

DIGITAL EQUIPMENT CORPORATION

By *[Signature]*  
President

The undersigned hereby becomes a party of this Agreement for purposes of Paragraphs 14 and 18 only.

*Martin T. Mobach*  
Martin T. Mobach









SCHEDULE 1  
9/6/71

|                                                  | A/L-Lessors           | B.L.C.                | C.I.T.                | CIC                   | Colgate<br>R & D | First N. B.<br>of Princeton | N.J.N.B.            | C.M.B.              | F.V.C.B.            | Bryant              |
|--------------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|------------------|-----------------------------|---------------------|---------------------|---------------------|---------------------|
| Principal                                        | \$ --                 | \$ --                 | \$ --                 | \$ --                 | \$ --            | \$300,000.00                | \$650,000.00        | \$250,000.00        | \$100,000.00        | \$229,348.00        |
| Rental Payments                                  | 1,513,672.65          | 2,468,624.67          | 2,561,045.07          | 1,820,363.13          | 122,941          | --                          | --                  | --                  | --                  | --                  |
| Moratorium Interest, 3/31/71                     | 13,638.82             | 16,274.21             | 10,757.50             | 27,330.14             | 6,052            | 12,833.13                   | --                  | --                  | --                  | 10,652.00           |
| Total Rental Payments or<br>Debt Principal       | <u>\$1,527,311.47</u> | <u>\$2,484,898.88</u> | <u>\$2,571,802.57</u> | <u>\$1,847,693.27</u> | <u>\$128,994</u> | <u>\$312,833.13</u>         | <u>\$650,000.00</u> | <u>\$250,000.00</u> | <u>\$100,000.00</u> | <u>\$240,000.00</u> |
| Rental Payments or Debt<br>Principal Forgiven    | \$ 862,043.64         | \$1,437,673.02        | \$1,510,836.04        | \$1,012,443.51        | \$ 83,247        | \$ 5,416.57                 | \$325,000.00        | \$125,000.00        | \$ 50,000.00        | \$120,000.00        |
| Remaining Rent or Close<br>Out Debt 3/31/71      | 665,267.83            | 1,047,225.86          | 1,060,966.53          | 835,249.76            | 45,747           | 15,416.57                   | 325,000.00          | 125,000.00          | 50,000.00           | 120,000.00          |
| Total                                            | <u>\$1,527,311.47</u> | <u>\$2,484,898.88</u> | <u>\$2,571,802.57</u> | <u>\$1,847,693.27</u> | <u>\$128,994</u> | <u>\$312,833.13</u>         | <u>\$650,000.00</u> | <u>\$250,000.00</u> | <u>\$100,000.00</u> | <u>\$240,000.00</u> |
| Balance ALC Debt:                                |                       |                       |                       |                       |                  |                             |                     |                     |                     |                     |
| Close Out Debt 3/31/71                           | \$ --                 | \$ --                 | \$ --                 | \$ --                 | \$ --            | \$156,416.56                | \$325,000.00        | \$125,000.00        | \$ 50,000.00        | \$120,000.00        |
| Remaining Rent 3/31/71                           | 665,267.83            | 1,047,225.86          | 1,060,966.53          | 835,249.76            | 45,747           | --                          | --                  | --                  | --                  | --                  |
| Accrued Interest Added to<br>C.O.D. 7/71-12/71   | --                    | --                    | --                    | --                    | --               | 2,346.25                    | 4,875.00            | 1,875.00            | 750.00              | 1,800.00            |
| Non-Interest Bearing Sub.<br>Notes               | --                    | --                    | 574,890.00            | 835,249.76            | --               | --                          | --                  | 125,000.00          | 50,000.00           | --                  |
| Total                                            | <u>\$ 665,267.83</u>  | <u>\$1,047,225.86</u> | <u>\$1,635,856.53</u> | <u>\$1,670,499.52</u> | <u>\$ 45,747</u> | <u>\$158,762.81</u>         | <u>\$329,875.00</u> | <u>\$251,875.00</u> | <u>\$100,750.00</u> | <u>\$121,800.00</u> |
| Payment Schedule ALC Debt:                       |                       |                       |                       |                       |                  |                             |                     |                     |                     |                     |
| Category I                                       | \$ 200,000.00         | \$ 200,000.00         | \$ 500,000.00         | \$ 40,000.00          | \$ 10,000        | \$ --                       | \$ --               | \$ --               | \$ --               | \$ 48,000.00        |
| Category II                                      | \$ 465,267.83         | \$ 847,225.86         | \$ 560,966.53         | \$ 795,249.76         | \$ 35,747        | \$158,762.81                | \$329,875.00        | \$126,875.00        | \$ 50,750.00        | \$ 73,800.00        |
| Category III                                     | \$ --                 | \$ --                 | \$ 574,890.00         | \$ 835,249.76         | \$ --            | \$ --                       | \$ --               | \$125,000.00        | \$ 50,000.00        | \$ --               |
| Total                                            | <u>\$ 665,267.83</u>  | <u>\$1,047,225.86</u> | <u>\$1,635,856.53</u> | <u>\$1,670,499.52</u> | <u>\$ 45,747</u> | <u>\$158,762.81</u>         | <u>\$329,875.00</u> | <u>\$251,875.00</u> | <u>\$100,750.00</u> | <u>\$121,800.00</u> |
| Number of Shares (Post Rev. Split)               | 221,756               | 349,075               | 162,026               | --                    | 15,249           | 52,139                      | 108,333             | --                  | --                  | 40,000              |
| Number of Warrants @ \$2.50<br>(Post Rev. Split) | 30,865                | 48,585                | 38,751                | 49,223                | 2,122            | 7,257                       | 15,078              | 5,799               | 2,320               | --                  |



| <u>Total</u>           | <u>Guaranteed<br/>Bank Loan</u> | <u>Grand Total</u>     |
|------------------------|---------------------------------|------------------------|
| \$ 1,529,348.00        | \$750,000.00                    | \$ 2,279,348.00        |
| 8,486,646.86           | --                              | 8,486,646.86           |
| 97,538.75              | --                              | 97,538.75              |
| <u>\$10,113,533.61</u> | <u>\$750,000.00</u>             | <u>\$10,863,533.61</u> |
| <br>                   |                                 |                        |
| \$ 5,682,659.93        | \$ --                           | \$ 5,682,659.93        |
| 4,430,873.68           | 750,000.00                      | 5,180,873.68           |
| <u>\$10,113,533.61</u> | <u>\$750,000.00</u>             | <u>\$10,863,533.61</u> |
| <br>                   |                                 |                        |
| \$ 776,416.56          | \$750,000.00                    | \$ 1,526,416.56        |
| 3,654,457.12           | --                              | 3,654,457.12           |
| 11,646.25              | --                              | 11,646.25              |
| 1,585,139.76           | --                              | 1,585,139.76           |
| <u>\$ 6,027,659.69</u> | <u>\$750,000.00</u>             | <u>\$ 6,777,659.69</u> |
| <br>                   |                                 |                        |
| \$ 998,000.00          | \$100,000.00                    | \$ 1,098,000.00        |
| \$ 3,444,519.93        | \$ --                           | \$ 3,444,519.93        |
| \$ 1,585,139.76        | \$650,000.00                    | \$ 2,235,139.76        |
| <u>\$ 6,027,659.69</u> | <u>\$750,000.00</u>             | <u>\$ 6,777,659.69</u> |
| <br>                   |                                 |                        |
| 948,578                | --                              | 948,578                |
| 200,000                | --                              | 200,000                |



|                          | A/L Lessors    | B.L.C.<br>LA1033-01 | B.L.C.<br>LA1016-01A | Total B.L.C.   | C.I.T. 524-1   | C.I.T. 524-2   | Total C.I.T.   | CIC FM's       | CIC MUX's     | CIC<br>Furniture |
|--------------------------|----------------|---------------------|----------------------|----------------|----------------|----------------|----------------|----------------|---------------|------------------|
| 1 Payments               | \$1,513,672.65 | \$1,337,875.00      | \$1,130,749.67       | \$2,468,624.67 | \$1,367,573.28 | \$1,193,471.79 | \$2,561,045.07 | \$1,305,055.00 | \$ 388,050.92 | \$ 127,257.21    |
| Premium Interest 3/31/71 | 13,638.82      | 9,121.83            | 7,152.33             | 16,274.21      | 4,956.15       | 10,757.50      | 24,014.15      | 2,601.49       | 714.50        |                  |
| Rental Payments          | \$1,527,311.47 | \$1,346,996.88      | \$1,137,902.00       | \$2,484,898.88 | \$1,373,374.63 | \$1,193,427.94 | \$2,571,802.57 | \$1,329,069.15 | \$ 390,652.41 | \$ 127,971.71    |
| 1 Payments Forgiven      | \$ 862,043.64  | \$ 778,958.44       | \$ 658,714.58        | \$1,437,673.02 | \$ 808,194.71  | \$ 702,641.33  | \$1,510,836.04 | \$ 705,827.03  | \$ 226,520.61 | \$ 80,095.87     |
| ning Rent                | 665,267.83     | 568,038.44          | 479,187.42           | 1,047,225.86   | 565,179.92     | 495,786.61     | 1,060,966.53   | 623,242.12     | 164,131.80    | 47,875.84        |
|                          | \$1,527,311.47 | \$1,346,996.88      | \$1,137,902.00       | \$2,484,898.88 | \$1,373,854.85 | \$1,197,947.72 | \$2,571,802.57 | \$1,329,069.15 | \$ 390,652.41 | \$ 127,971.71    |
| ate of Leases            | 11/75          | 11/76               | 5/77                 | --             | 7/77           | 9/77           | --             | 9/72           | 1/75          | 1/77             |
| r of Months 4/1/71 -     | 56             | 68                  | 74                   | --             | 76             | 78             | --             | 18             | 46            | 70               |
| of Lease                 |                |                     |                      |                |                |                |                |                |               |                  |
| ly Rental Payments       | \$ 11,879.78   | \$ 8,353.50         | \$ 6,475.50          | \$ 14,829.00   | \$ 7,436.57    | \$ 6,356.23    | \$ 13,792.80   | \$ 34,624.56   | \$ 3,568.08   | \$ 683.94        |
| r's Close Out Debt       |                |                     |                      |                |                |                |                |                |               |                  |
| ounts 1/31/72            | \$ 190,076.48  | \$ 133,656.00       | \$ 103,608.00        | \$ 237,264.00  | \$ 118,985.12  | \$ 101,699.68  | \$ 220,684.80  | \$ 553,992.96  | \$ 57,089.28  | \$ 10,943.04     |
| ed Interest 1/31/72      |                |                     |                      |                |                |                |                |                |               |                  |
| be paid 2/10/72)         | \$ 1,633.50    | \$ --               | \$ --                | \$ 2,039.00    | \$ --          | \$ --          | \$ 1,896.51    | \$ --          | \$ --         | \$ --            |
| r of Shares (Post        |                |                     |                      |                |                |                |                |                |               |                  |
| erse Split)              | 221,756        | --                  | --                   | 349,075        | --             | --             | 162,026        | --             | --            | --               |
| Interest Bearing         |                |                     |                      |                |                |                |                |                |               |                  |
| ordinated Notes          | --             | --                  | --                   | --             | --             | --             | \$ 574,890.00  | --             | --            | --               |



| <u>Total CIC</u>      | <u>Colgate R&amp;D</u> | <u>Grand Total</u>    |
|-----------------------|------------------------|-----------------------|
| \$1,820,363.13        | \$ 122,941.34          | \$8,486,646.86        |
| 27,330.14             | 6,052.95               | 74,053.62             |
| <u>\$1,847,693.27</u> | <u>\$ 128,994.29</u>   | <u>\$8,560,700.48</u> |
| <br>                  |                        |                       |
| \$1,012,433.51        | \$ 83,247.15           | \$4,906,243.36        |
| 835,249.76            | 45,747.14              | 3,654,457.12          |
| <u>\$1,847,693.27</u> | <u>\$ 128,994.29</u>   | <u>\$8,560,700.48</u> |
| <br>                  |                        |                       |
| --                    | 12/73                  | --                    |
| --                    | 33                     | --                    |
| \$ 38,876.58          | \$ 1,386.28            | \$ 80,764.44          |
| <br>                  |                        |                       |
| \$ 662,025.28         | \$ 22,180.48           | \$1,292,231.04        |
| <br>                  |                        |                       |
| \$ 5,345.52           | \$ 190.62              | \$ 11,105.15          |
| <br>                  |                        |                       |
| --                    | 15,249                 | 748,106               |
| <br>                  |                        |                       |
| \$ 835,249.76         | --                     | \$1,410,139.70        |



SCHEDULE 2(a)

9/6/71

| Close Out Debt<br>Overdue Monthly<br>Rental Payments |       | A/L Lessors | B.L.C.<br>LA1013-01 | B.L.C.<br>LA1016-01a | Total<br>B.L.C. | CIT<br>524-1 | CIT<br>524-2 | Total CIT  | CIC FM's   | CIC Mux's | CIC<br>Furniture | Total CIC  | Colgate R&D | Grand Total  |
|------------------------------------------------------|-------|-------------|---------------------|----------------------|-----------------|--------------|--------------|------------|------------|-----------|------------------|------------|-------------|--------------|
| 1971                                                 | April | 11,879.78   | 8,353.50            | 6,475.50             | 14,829.00       | 7,436.57     | 6,356.23     | 13,792.80  | 34,624.56  | 3,569.08  | 683.94           | 38,876.58  | 1,386.28    | 80,764.44    |
|                                                      | May   | 23,759.56   | 16,707.00           | 12,951.00            | 29,658.00       | 14,873.14    | 12,712.46    | 27,585.60  | 69,249.12  | 7,136.16  | 1,367.88         | 77,753.16  | 2,772.56    | 161,528.88   |
|                                                      | June  | 35,639.34   | 25,060.50           | 19,426.50            | 44,487.00       | 22,309.71    | 19,068.69    | 41,378.40  | 103,873.68 | 10,704.24 | 2,051.82         | 116,629.74 | 4,152.84    | 242,293.32   |
|                                                      | July  | 47,519.12   | 33,414.00           | 25,902.00            | 59,316.00       | 29,746.28    | 25,424.52    | 55,171.20  | 138,498.24 | 14,272.32 | 2,735.76         | 155,506.32 | 5,545.12    | 323,057.76   |
|                                                      | Aug   | 59,398.90   | 41,767.50           | 32,377.50            | 74,145.00       | 37,182.85    | 31,701.15    | 68,884.00  | 173,122.80 | 17,840.40 | 3,419.70         | 194,382.90 | 6,931.40    | 403,822.20   |
|                                                      | Sept  | 71,278.68   | 50,121.00           | 38,853.00            | 89,974.00       | 44,619.42    | 38,137.38    | 82,756.80  | 207,747.36 | 21,408.48 | 4,101.64         | 233,259.48 | 8,317.68    | 484,585.64   |
|                                                      | Oct   | 83,158.46   | 58,474.50           | 45,328.50            | 103,803.00      | 52,055.99    | 44,493.61    | 96,549.60  | 242,371.92 | 24,976.56 | 4,787.58         | 272,136.06 | 9,703.96    | 565,351.08   |
|                                                      | Nov   | 95,038.24   | 66,828.00           | 51,804.00            | 118,632.00      | 59,452.56    | 50,849.84    | 110,342.40 | 276,996.48 | 28,514.64 | 5,471.52         | 311,032.64 | 11,000.74   | 646,115.52   |
|                                                      | Dec   | 106,918.02  | 75,181.50           | 58,279.50            | 133,461.00      | 66,929.13    | 57,206.07    | 124,135.20 | 311,621.04 | 32,112.72 | 6,155.46         | 349,859.22 | 12,476.52   | 726,879.96   |
| 1972                                                 | Jan   | 118,797.80  | 83,535.00           | 64,755.00            | 143,290.00      | 74,365.70    | 63,562.30    | 137,928.00 | 346,245.60 | 35,680.80 | 6,839.40         | 388,765.80 | 13,862.80   | 807,644.40   |
|                                                      | Feb   | 130,677.58  | 91,889.50           | 71,230.50            | 163,119.00      | 81,602.27    | 69,919.53    | 151,520.80 | 380,870.16 | 39,248.88 | 7,523.34         | 427,642.38 | 15,249.08   | 869,408.84   |
|                                                      | Mar   | 142,557.36  | 100,242.00          | 77,706.00            | 177,948.00      | 89,238.84    | 76,274.76    | 165,513.60 | 415,494.72 | 42,816.96 | 8,207.28         | 466,518.96 | 16,635.36   | 969,173.28   |
|                                                      | April | 154,437.14  | 108,595.50          | 84,181.50            | 192,777.00      | 96,875.41    | 82,630.99    | 179,506.40 | 450,119.28 | 46,385.04 | 8,891.22         | 505,395.54 | 18,021.64   | 1,049,937.72 |
|                                                      | May   | 166,316.92  | 116,949.00          | 90,657.00            | 207,606.00      | 104,111.98   | 88,907.22    | 193,019.20 | 484,743.84 | 49,953.12 | 9,575.16         | 544,272.12 | 19,407.92   | 1,130,702.16 |
|                                                      | June  | 178,196.70  | 125,302.50          | 97,132.50            | 222,435.00      | 111,548.55   | 95,343.45    | 206,892.00 | 519,368.40 | 53,521.20 | 10,259.10        | 583,143.70 | 20,794.20   | 1,211,466.60 |
|                                                      | July  | 190,075.48  | 133,656.00          | 103,608.00           | 237,264.00      | 118,985.12   | 101,699.68   | 220,684.80 | 553,992.96 | 57,089.28 | 10,943.04        | 622,025.28 | 22,180.48   | 1,292,231.04 |
| Monthly Interest Charges                             |       |             |                     |                      |                 |              |              |            |            |           |                  |            |             |              |
| 1971                                                 | April | 29.70       |                     |                      | 37.07           |              |              | 34.48      |            |           |                  | 97.19      | 3.47        | 201.91       |
|                                                      | May   | 59.40       |                     |                      | 74.15           |              |              | 68.96      |            |           |                  | 194.38     | 6.93        | 403.82       |
|                                                      | June  | 89.10       |                     |                      | 111.22          |              |              | 103.45     |            |           |                  | 291.57     | 10.40       | 605.74       |
|                                                      | July  | 118.80      |                     |                      | 148.29          |              |              | 137.93     |            |           |                  | 382.77     | 13.86       | 807.65       |
|                                                      | Aug   | 148.50      |                     |                      | 185.36          |              |              | 172.41     |            |           |                  | 495.96     | 17.33       | 1,009.56     |
|                                                      | Sept  | 178.20      |                     |                      | 222.44          |              |              | 206.89     |            |           |                  | 583.15     | 20.79       | 1,211.47     |
|                                                      | Oct   | 207.90      |                     |                      | 259.51          |              |              | 241.37     |            |           |                  | 680.34     | 24.26       | 1,413.38     |
|                                                      | Nov   | 237.60      |                     |                      | 296.58          |              |              | 275.86     |            |           |                  | 777.53     | 27.73       | 1,615.30     |
|                                                      | Dec   | 267.30      |                     |                      | 333.65          |              |              | 310.34     |            |           |                  | 874.72     | 31.19       | 1,817.20     |
|                                                      | Jan   | 297.00      |                     |                      | 370.73          |              |              | 344.82     |            |           |                  | 971.91     | 34.66       | 2,019.12     |
| Accrued Int (Pay 2-10-72)                            |       |             |                     |                      |                 |              |              |            |            |           |                  |            |             |              |
| 1972                                                 | Feb   | 326.70      | 1,633.50            |                      | 2,039.00        |              |              | 1,896.51   |            |           |                  | 5,345.52   | 190.62      | 11,105.15    |
|                                                      | Mar   | 356.40      |                     |                      | 407.80          |              |              | 379.30     |            |           |                  | 1,069.11   | 39.12       | 2,221.03     |
|                                                      | April | 386.10      |                     |                      | 444.87          |              |              | 413.78     |            |           |                  | 1,166.30   | 41.59       | 2,422.94     |
|                                                      | May   | 415.80      |                     |                      | 481.94          |              |              | 448.27     |            |           |                  | 1,263.49   | 45.05       | 2,624.85     |
|                                                      | June  | 445.50      |                     |                      | 519.02          |              |              | 482.75     |            |           |                  | 1,360.68   | 48.52       | 2,826.77     |
|                                                      | July  | 475.20      |                     |                      | 556.09          |              |              | 517.23     |            |           |                  | 1,457.87   | 51.99       | 3,028.68     |
|                                                      |       |             |                     |                      | 593.16          |              |              | 551.71     |            |           |                  | 1,555.06   | 55.45       | 3,230.58     |

AMENDED ANSWER WITH COUNTERCLAIMS

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

|                            |                              |
|----------------------------|------------------------------|
| ----- x                    |                              |
| In the Matter of           | :                            |
| APPLIED LOGIC CORPORATION, | :                            |
|                            | :                            |
| Debtor,                    | : No. 75 B 491               |
|                            | :                            |
| NEW JERSEY NATIONAL BANK,  | : <u>AMENDED</u>             |
|                            | : <u>ANSWER AND COUNTER-</u> |
|                            | : <u>CLAIMS</u>              |
| Plaintiff,                 | :                            |
|                            | :                            |
| -against-                  | : In Proceedings for         |
|                            | : an Arrangement under       |
|                            | : Chapter XI of the          |
| APPLIED LOGIC CORPORATION, | : Bankruptcy Act             |
|                            | :                            |
| Defendant.                 | :                            |
| ----- x                    |                              |

APPLIED LOGIC CORPORATION, debtor-in-possession and  
defendant herein, by COUDERT BROTHERS, its attorneys, as and for  
its Answer and Counterclaims herein:

ANSWER TO COMPLAINT OF PLAINTIFF  
NEW JERSEY NATIONAL BANK

1. Admits the allegations contained in paragraphs numbered "1", "2", "4" and "8" of the Complaint.
2. Denies knowledge or information sufficient to form a belief as to the allegations contained in paragraph numbered "3" of the Complaint.
3. Denies the allegations contained in paragraphs numbered "5", "6" and "7" of the Complaint.



FIRST COUNTERCLAIM BY DEFENDANT APPLIED LOGIC  
CORPORATION, DEBTOR-IN-POSSESSION, AGAINST  
PLAINTIFF NEW JERSEY NATIONAL BANK

4. This is an adversary proceeding to "recover money or property," pursuant to Bankruptcy Rules 701(1), 707 and 713, and to recover a preference under Bankruptcy Act §60 and §67d.

5. Defendant filed with this Court a petition for an arrangement pursuant to Chapter XI, Section 322, of the Bankruptcy Act on March 27, 1975. By order of this Court dated the same day, defendant was continued in the possession and operation of its business and property.

6. Defendant is a corporation engaged in the business of computer and programming services.

7. Plaintiff NEW JERSEY NATIONAL BANK is a New Jersey banking corporation with an office at One West State Street, Trenton, New Jersey.

8. On September 2, 1970, defendant entered into an agreement with Chase Manhattan Bank, First National City Bank, First National Bank of Princeton, plaintiff NEW JERSEY NATIONAL BANK and certain other parties (the "1970 Agreement"), providing, inter alia, that plaintiff would hold certain funds "on behalf of the other" creditors of defendant (at p.5 thereof) and further providing that defendant "shall conduct all banking of its funds at and through NEW JERSEY NATIONAL BANK" (at p.5A thereof).

9. Based on said 1970 Agreement, plaintiff held funds deposited by defendant in accordance with the 1970 Agreement in special accounts for the benefit of defendant and defendant's creditors.

10. On September 15, 1971, defendant entered into a Recapitalization Agreement (the "Recapitalization Agreement") with the same creditors, including plaintiff. Except for items specifically enumerated in the Recapitalization Agreement, the 1970 Agreement remained in full force and effect. The Recapitalization Agreement required, inter alia, defendant to raise certain working capital, which working capital was required by the terms of the 1970 Agreement to be deposited with plaintiff.

11. Defendant deposited said funds with plaintiff in the form of certificates of deposit drawn on plaintiff. With the consent of the signatories to said Agreements, said certificates of deposit were duly held in such trust capacity and were periodically renewed.

12. Said certificates of deposit were not held by plaintiff in the ordinary course of business, but were held for special purposes by plaintiff pursuant to the terms and conditions of the aforesaid Agreements.

13. On or about the dates indicated, without authorization of defendant or of any other party to said Agreements, plaintiff charged certain sums against the said certificates of deposit



as follows:

| <u>DATE</u>       | <u>AMOUNT</u> |
|-------------------|---------------|
| December 3, 1974  | \$ 100,739.58 |
| December 9, 1974  | 101,551.11    |
| December 31, 1974 | 41,485.42     |

Attached hereto as Exhibit A are plaintiff's transfer notices indicating such unauthorized charges.

14. The aforesaid unauthorized charges totalling \$243,776.11, together with accrued interest, were made within four months of the filing of defendant's petition herein for relief under the Bankruptcy Act.

15. At the time said charges were made, plaintiff knew and had reasons to know that defendant was insolvent.

16. Pursuant to §60 and §68 of the Bankruptcy Act, plaintiff has in its possession and under its control the sum of \$243,776.11, together with accrued interest, belonging to the estate of the debtor-defendant and to which debtor-defendant is entitled to immediate possession, but which plaintiff has failed and refused to turn over to defendant, although demand therefor has been duly made.

SECOND COUNTERCLAIM AGAINST PLAINTIFF

17. Defendant incorporates each and every allegation heretofore made herein.

18. At the time plaintiff accepted the aforementioned certificates of deposit, against which charges were made as referred to in Paragraph "9" herein, plaintiff knew and had reason to know that defendant was insolvent, or that by such transfer defendant rendered itself so insolvent.

19. Certain of the creditors of defendant were in existence at the time plaintiff accepted such certificates of deposit and at the time plaintiff transferred the same to its own account as aforesaid, all contrary to the provisions of §67d(2) of the Bankruptcy Act.

20. Defendant has insufficient assets in its hands to pay its creditors in full.

THIRD COUNTERCLAIM AGAINST PLAINTIFF

21. Defendant incorporates each and every allegation heretofore made herein.

22. On or about April 16, 1975, defendant received from plaintiff a notice that plaintiff applied a cashier's check No. 302028 dated March 30, 1975 in the amount of \$830.62 against a loan in the name of defendant. A copy of said evidence of transfer by plaintiff is annexed hereto as Exhibit B.

23. Defendant is entitled to immediate possession of said funds and has duly demanded the return of the same, but plaintiff has failed and refused to comply with such demand.



FOURTH COUNTERCLAIM AGAINST PLAINTIFF

24. Defendant incorporates each and every allegation heretofore made herein.

25. On or about April 17, 1975, plaintiff converted \$1,682.98 remaining in defendant's checking account and applied the same against an alleged unsecured loan. A copy of said evidence of transfer by plaintiff is annexed hereto as Exhibit C.

26. Defendant is entitled to immediate possession of said funds and has duly demanded the return of the same, but plaintiff has failed and refused to comply with such demand.

27. Alternatively, if plaintiff is sustained in its claim set forth in the Complaint herein and plaintiff is found to have had a valid lien on defendant's "unencumbered assets" at the time defendant filed its petition with this Court, then said amount of \$1,682.98 and all other amounts referred to herein, should be applied first to the secured loan referred to in the Complaint herein.

FIFTH COUNTERCLAIM AGAINST PLAINTIFF

28. Defendant incorporates each and every allegation heretofore made herein.

29. On or about April 1, 1976, plaintiff converted \$26,095.76 and \$2,952.07 in total interest thereon from a certain certificate of deposit in the name of defendant.

30. Defendant is entitled to immediate possession of said funds and has duly demanded the return of the same, but plaintiff has failed and refused to comply with such demand.

WHEREFORE, defendant prays for an order:

- (1) Awarding judgment dismissing the Complaint herein;
- (2) Directing plaintiff to turn over and surrender to defendant the said assets in the respective sums of \$243,776.11, \$830.62, \$1,682.98, \$26,095.76 and \$2,952.07, totalling the sum of \$275,337.54, together with accrued interest thereon;
- (3) Finding each of said transfers by plaintiff to be preferential and fraudulent and in violation of the Bankruptcy Act;
- (4) Setting aside and declaring void as against defendant said transfers;
- (5) Alternatively, in the event that plaintiff is found to be entitled to setoff any of the foregoing sums, finding that any such sums must be first applied to the secured loan referred to in the Complaint herein;
- (6) Awarding judgment against plaintiff in favor of defendant for costs, interest and disbursement; and
- (7) Awarding defendant such other and further relief as is just.



Amended Answer with Counterclaims

A-90

Dated: New York, New York  
June 10, 1976

Yours, etc.

COUDERT BROTHERS  
Attorneys for Defendant

By   
A Member of the Firm  
200 Park Avenue  
New York, New York 10017  
(212) 973-3300

**EXHIBIT A, ANNEXED TO AMENDED ANSWER**  
**Three Commercial Loan Department Payments**

A-91

| LOAN ACCT. NO. | NOTE NO. | R   | DUE DATE | DATE OF TRANS. | DAY OF YEAR | S.S.C. | PRINCIPAL  |
|----------------|----------|-----|----------|----------------|-------------|--------|------------|
|                |          | 5.0 | demand   | 12-9-74        | 313         | 01     | 107,551.11 |

Redemption of C.D. #4452 \$100,791.67  
+ interest of \$759.44

Applied Logic Corp.

|         |        |
|---------|--------|
| OFFICER | BRANCH |
| MT      | 02     |

**PAYMENT**  
☐ FULL  
☐ PARTIAL  
☐ DUE TODAY  
☐ PREPAID  
☐ PAST DUE PAID  
☐ PAST DUE RENEWED

|               |
|---------------|
| C&G ACCT. NO. |
|               |

|               |
|---------------|
| BALANCE OWING |
| 122,709.31    |

PREPARED BY 12-9-74 DATE \_\_\_\_\_

**CUSTOMER RECORD—Please Retain for Income Tax Purposes**

NC 170 9173

**NEW JERSEY NATIONAL BANK**  
**COMMERCIAL LOAN DEPARTMENT - PAYMENTS**

| LOAN ACCT. NO. | NOTE NO. | RATE | DUE DATE | DATE OF TRANS. | DAY OF YEAR | S.S.C. | PRINCIPAL  | INTEREST<br><input type="checkbox"/> NEW <input type="checkbox"/> PAST DUE |
|----------------|----------|------|----------|----------------|-------------|--------|------------|----------------------------------------------------------------------------|
|                |          | 5.0% | demand   | 12-3-74        | 313         | 01     | 100,733.58 |                                                                            |

Redemption of C D #4446 \$100M + interest  
\$739.58

Applied Logic Corp.  
Attn: Rich Roisfield  
900 State St. Pi.  
Princeton, N.J.

|         |        |
|---------|--------|
| OFFICER | BRANCH |
| MT      | 02     |

**PAYMENT**  
☐ FULL  
☐ PARTIAL  
☐ DUE TODAY  
☐ PREPAID  
☐ PAST DUE PAID  
☐ PAST DUE RENEWED

|               |
|---------------|
| C&G ACCT. NO. |
|               |

|               |
|---------------|
| BALANCE OWING |
| 224,260.42    |

PREPARED BY 12-9-74 DATE \_\_\_\_\_

**CUSTOMER RECORD—Please Retain for Income Tax Purposes**

NC 170 9174

**NEW JERSEY NATIONAL BANK**  
**COMMERCIAL LOAN DEPARTMENT - PAYMENTS**

| LOAN ACCT. NO. | NOTE NO. | RATE | DUE DATE | DATE OF TRANS.              | DAY OF YEAR | S.S.C. | PRINCIPAL | INTEREST<br><input type="checkbox"/> NEW <input type="checkbox"/> PAST DUE |
|----------------|----------|------|----------|-----------------------------|-------------|--------|-----------|----------------------------------------------------------------------------|
|                |          | 5.0  | demand   | 12-31<br><del>12-3-75</del> | 7           | 01     | 41,485.42 |                                                                            |

Applied Logic Corp.  
One Palmer Square  
Princeton, N.J.

|         |        |
|---------|--------|
| OFFICER | BRANCH |
| CT      |        |

**PAYMENT**  
☐ FULL  
☐ PARTIAL  
☐ DUE TODAY  
☐ PREPAID  
☐ PAST DUE PAID  
☐ PAST DUE RENEWED

|            |
|------------|
| TRANS CODE |
| 28         |

|               |
|---------------|
| C&G ACCT. NO. |
| check         |

|              |
|--------------|
| TOTAL CHARGE |
| 41,485.42    |

|               |
|---------------|
| BALANCE OWING |
| 81,223.89     |

PREPARED BY JH 1-7-75 DATE \_\_\_\_\_

**CUSTOMER RECORD—Please Retain for Income Tax Purposes**



EXHIBIT B, ANNEXED TO AMENDED ANSWERReceipt dated 4/4/75 by New Jersey  
National Bank

Reference (

TRENTON, N. J., April 4, 1975

Received from APPLIED LOGIC CORPORATION, Cashiers Check #302022 dated

March 30, 1975 in the amount of \$630.62, interest from Certificate of

Deposit #240390. Check was applied against loan in the name of APPLIED

LOGIC CORPORATION.

ADMINISTRATION

APR 16 1975

APPLIED

NEW JERSEY NATIONAL BANK

By

Michael S. Lynch  
Executive Vice President

UNICA-9/73

RECEIPT

EXHIBIT C, ANNEXED TO AMENDED ANSWERDebit Advice dated 4/1/75 from New  
Jersey National Bank to ALC

## NEW JERSEY NATIONAL BANK

4-1-75  
DATE

We charge your account in the amount of \$ 1,682.08

For: to close the account. Account is  
bankrupt.

20-358-9

ACCOUNT NUMBER

TRAN  
CODE

28

Cashier's Check made payable to  
NEW JERSEY NATIONAL BANK  
NOTE DEPARTMENT

Applied Logic Corporation

Cust. Asst.  
SR. OR DEPT.L. Heinemann  
SIGNATUREDEBIT  
BANK COPY

APR 17 1975

03203589 280000366298



ANSWER TO AMENDED COUNTERCLAIMS

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

In the Matter of :

APPLIED LOGIC CORPORATION, :

Debtor. :

IN PROCEEDINGS FOR AN ARRANGEMENT  
UNDER CHAPTER XI OF THE  
BANKRUPTCY ACT

NEW JERSEY NATIONAL BANK,  
a national banking  
corporation, :

No. B 75-491

Plaintiff, :

ANSWER TO AMENDED COUNTERCLAIMS

vs.

APPLIED LOGIC CORPORATION, :  
a New Jersey corporation, :

Defendant. :

.. .. . :

New Jersey National Bank, a national banking corporation,  
with its principal office and place of business at 1 West State  
Street, in the City of Trenton, County of Mercer and State of New  
Jersey, by way of Answer to Amended Counterclaims heretofore  
filed by Applied Logic Corporation, the debtor in possession and  
defendant herein, says that:

AS TO FIRST COUNTERCLAIM

1. Plaintiff herein neither admits nor denies the

allegations of paragraph 4 of the First Counterclaim of the defendant and leaves the defendant to its proof.

2. Plaintiff herein admits the allegations of paragraph 5 contained in the First Counterclaim by the defendant.

3. Plaintiff admits the allegations of paragraph 6 of the First Counterclaim by the defendant.

4. Plaintiff admits the allegations of paragraph 7 of the First Counterclaim by the defendant.

5. Plaintiff admits the execution of the agreement dated September 2, 1970, as set forth in paragraph 8 of the First Counterclaim by the defendant. Plaintiff, however, denies that the said agreement required the plaintiff to hold certain funds "on behalf of the other" creditors of the defendant. Plaintiff further denies that the requirement that the defendant "shall conduct all banking of its funds at and through New Jersey National Bank" has any implications with respect to the conclusions indicated in paragraphs 8 and 9 of the First Counterclaim by the defendant.

6. Plaintiff denies the allegations of paragraph 9 of the First Counterclaim by the defendant.

7. Plaintiff admits the execution of the agreement dated September 15, 1971, as alleged in paragraph 10 of the First Counterclaim by the defendant, however, plaintiff states



that the agreement speaks for itself and plaintiff denies the conclusions by the defendant with respect to the effect of the agreement dated September 15, 1971.

8. Plaintiff admits so much of paragraph 11 of the First Counterclaim by the defendant indicating that the defendant deposited funds with the plaintiff. However, plaintiff denies that these funds were deposited in the form of Certificates of Deposit at any one particular time and plaintiff further denies that the Certificates of Deposit were held in a trust capacity and were periodically renewed as a trust.

9. Plaintiff denies paragraph 12 of the First Counterclaim by the defendant and specifically denies that the Certificates of Deposit which the plaintiff in fact held from time to time were not held by the plaintiff in the ordinary course of business and specifically denies that the said Certificates of Deposit which the plaintiff held from time to time were held for special purposes pursuant to the terms and conditions of the aforesaid agreement.

10. Plaintiff admits so much of paragraph 13 which alleges the transfer of funds on the dates indicated and in the amounts indicated, however, plaintiff denies that these transfers were without authorization and further denies the balance of paragraph 13 of the First Counterclaim of the

defendant except as specifically admitted herein.

11. Plaintiff denies so much of paragraph 14 of the First Counterclaim of the defendant which alleges that the offset set forth in paragraph 13 was unauthorized. Plaintiff admits so much of paragraph 14 of the First Counterclaim by the defendant which refers to the dates involved.

12. Plaintiff admits the allegations of paragraph 15 of the First Counterclaim of the defendant.

13. Plaintiff denies the allegations of Paragraph 16 of the First Counterclaim of the defendant, excepting that plaintiff admits that demand has been made subsequent to the filing of the Petition in these proceedings for the sum of money alleged in paragraph 16 of the First Counterclaim of the defendant, and plaintiff admits that it has refused to turn over to the defendant upon demand the said sum of money on the grounds that plaintiff has a right of setoff and counterclaim pursuant to the provisions of Section 68 of the Bankruptcy Act of the United States of America.

AS TO SECOND COUNTERCLAIM

14. With respect to paragraph 17 of the Second Counterclaim of the defendant, plaintiff incorporates its Answer to each and every allegation heretofore made herein.



15. Plaintiff neither admits nor denies the allegations of paragraph 18 of the Second Counterclaim of the defendant and leaves the defendant to its proof.

16. Plaintiff neither admits nor denies the allegations of paragraph 19 of the Second Counterclaim of the defendant and leaves the defendant to its proof.

17. Plaintiff neither admits nor denies the allegations of paragraph 20 of the Second Counterclaim of the defendant and leaves the defendant to its proof.

AS TO THIRD COUNTERCLAIM

18. With respect to paragraph 21, plaintiff incorporates the answers to each and every allegation made by the plaintiff heretofore.

19. Plaintiff admits the allegations of paragraph 22 of the Third Counterclaim against the plaintiff.

20. Plaintiff denies the allegations of paragraph 23 of the Third Counterclaim of the defendant.

AS TO FOURTH COUNTERCLAIM

21. With respect to paragraph 24 of the Fourth Counterclaim against the plaintiff, plaintiff incorporates the

response and answer to each and every allegation heretofore made herein.

22. Plaintiff admits so much of paragraph 25 of the Fourth Counterclaim against the plaintiff which states that plaintiff received One Thousand Six Hundred Eighty Two Dollars and Ninety Eight Cents (\$1,682.98) but denies the balance of the allegations of paragraph 25.

23. Plaintiff denies the allegations of paragraph 26 of the Fourth Counterclaim against the plaintiff.

24. Plaintiff denies the allegations of paragraph 27 of the Fourth Counterclaim against the plaintiff.

AS TO FIFTH COUNTERCLAIM

25. With respect to paragraph 28 of the Fifth Counterclaim against the plaintiff, plaintiff incorporates the response and answer to each and every allegation heretofore made herein.

26. Plaintiff admits so much of paragraph 29 of the Fifth Counterclaim against the plaintiff which states that plaintiff received \$26,095.76 and \$2,952.07 in total interest, but denies the balance of the allegations of paragraph 29.

27. Plaintiff denies the allegations of paragraph 30 of the Fifth Counterclaim against the plaintiff.



FIRST SEPARATE DEFENSE  
TO ALL COUNTERCLAIMS

1. The provisions of paragraph 2 on page 5 of the agreement dated September 2, 1970, which provided that certain funds would be held by New Jersey National Bank on behalf of the other banks were not in any fashion involved with the funds on deposit with New Jersey National Bank as alleged in the First Counterclaim by the defendant filed herein. Paragraph 2 of the aforesaid agreement dated September 2, 1970 speaks for itself.

2. So much of the provisions of paragraph 2 on page 5 of the agreement dated September 2, 1970, which states that "which shall be held by New Jersey National Bank on behalf of the other banks" only provides for the holding by the plaintiff of certain obligations due and owing by the debtor herein and only applies to the notes referred to in paragraph 2 on page 5 of the agreement dated September 2, 1970.

SECOND SEPARATE DEFENSE  
TO ALL COUNTERCLAIMS

1. The provision on page 5a in paragraph 2 of the agreement dated September 2, 1970, which provides "ALC shall conduct all banking of its funds at and through New Jersey National Bank until both notes are paid" did not establish any trust fund or any type of special fund on deposit at New Jersey National Bank in favor of the debtor herein.

2. The aforesaid provision requiring all banking to be done at New Jersey National Bank was inserted at the request of New Jersey National Bank for the reason that by the terms and conditions of the agreement dated September 2, 1970, New Jersey National Bank was required to advance additional funds under the terms and conditions of the aforesaid agreement dated September 2, 1970 (See paragraph 4 on page 8 of the agreement dated September 2, 1970) and New Jersey National Bank desired the additional security of its right of setoff.

3. New Jersey National Bank in fact advanced additional funds pursuant to the agreement dated September 2, 1970, paragraph 4, pages 8 &c.

4. One of the motivations for New Jersey National Bank advancing the additional funds pursuant to the agreement and entering into the aforesaid agreement to advance additional funds was the knowledge that New Jersey National Bank had of its right of setoff pursuant to the provisions of paragraph 68 of the Bankruptcy Act of the United States of America.

**THIRD SEPARATE DEFENSE  
TO ALL COUNTERCLAIMS**

1. From time to time New Jersey National Bank has made advances to Applied Logic Corporation in various sums of money.



2. As of July 3, 1974, there was a principal balance of Three Hundred Twenty Nine Thousand Eight Hundred Seventy Five Dollars (\$329,875.00) due and owing to New Jersey National Bank on a promissory note dated July 6, 1970, a portion of which had been reduced by virtue of the aforesaid agreement dated September 15, 1971.

3. On July 3, 1974, pursuant to the provisions of the agreement dated September 15, 1971, New Jersey National Bank notified Applied Logic Corporation that it was accelerating all notes due and owing New Jersey National Bank including, but not limited to, the balance on the aforesaid demand loan dated July 6, 1970, the current balance of which was then Three Hundred Twenty Nine Thousand Eight Hundred Seventy Five Dollars (\$329,875.00).

4. On a number of occasions following the aforesaid letter dated July 3, 1974, the right of setoff of New Jersey National Bank of the balances on deposit with New Jersey National Bank as against the said balance of Three Hundred Twenty Nine Thousand Eight Hundred Seventy Five Dollars (\$329,875.00) was recognized in writing not only by Applied Logic Corporation, the debtor herein, but also in meetings of creditors which were held from time to time subsequent to the aforesaid date of July 3, 1974.

5. The balances on deposit with New Jersey National

Bank from time to time were converted to Certificates of Deposit at the request of Applied Logic Corporation for monies on deposit in the checking account of Applied Logic Corporation on deposit with New Jersey National Bank. The said monies had been accumulated from various types of cash flow of Applied Logic Corporation, the debtor herein, however, at no time during any period of time had there been any agreement that any of the monies either in the checking account of Applied Logic Corporation at New Jersey National Bank or Certificates of Deposit issued by New Jersey National Bank were to be held for any particular purpose other than the general purposes of Applied Logic Corporation. The dollar amount of the Certificates of Deposit with New Jersey National Bank varied substantially over the years as the cash flow of Applied Logic Corporation varied. From time to time Applied Logic Corporation utilized Certificates of Deposit by transferring the same to its regular checking account and issuing checks against it. No monies were ever paid by Applied Logic Corporation, the debtor herein, to any of its creditors set forth in the agreement dated September 15, 1971, and/or the agreement dated September 2, 1970, on account of the obligation set forth on the aforesaid agreements.

6. All monies claimed by the defendant herein on deposit with New Jersey National Bank, the plaintiff herein, had



never been characterized as special funds, but in fact had been utilized as general funds for the operations of Applied Logic Corporation, the defendant herein.

7. Plaintiff is entitled to retain all funds allegedly improperly withheld by the plaintiff from Applied Logic Corporation, the defendant herein, by virtue of the provisions of Section 68 of the Bankruptcy Act of the United States of America (11 U.S.C. Section 108).

FOURTH SEPARATE DEFENSE  
TO FIFTH COUNTERCLAIM

1. Any action of the plaintiff bank in reference to the said Certificate of Deposit was predicated upon an Assignment dated November 1, 1974 from defendant, Applied Logic Corporation, to New Jersey National Bank of Certificate of Deposit No. 240390 and any money deposited therein to the extent thereof as security for a loan of Sixty Thousand Dollars (\$60,000.00).

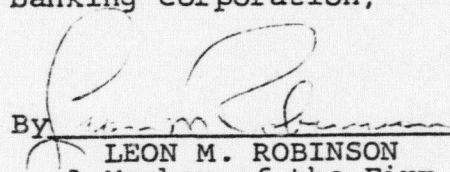
WHEREFORE, Plaintiff herein, New Jersey National Bank, a national banking corporation, demands judgment against the defendant herein:

(a) For the relief demanded in the Complaint heretofore filed.

(b) Dismissing all of the Counterclaims of the defendant herein with prejudice.

(c) For such other and further relief as may by this Court be deemed just and equitable under the circumstances.

TEICH, GROH AND ROBINSON  
Attorneys for New Jersey  
National Bank, a national  
banking corporation,

By 

LEON M. ROBINSON  
A Member of the Firm

DATED: June 21, 1976



UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK  
(In Bankruptcy)

In the Matter  
of  
APPLIED LOGIC CORPORATION,  
Debtor,  
NEW JERSEY NATIONAL BANK,  
Plaintiff,  
APPLIED LOGIC CORPORATION,  
Defendant

No. 75-B-491

United States Court House  
Foley Square, New York, N.Y.

June 16, 1975 - 2:00 P.M.

Before:

HON. ASA S. HERZOG

Bankruptcy Judge

RECLAMATION BY NEW JERSEY NATIONAL BANK  
- - - - -

Appearances:

TEICH, GROH & ROBINSON, Esqs.  
Attorneys for Plaintiff  
143 E. State Street  
Trenton, New Jersey

By: ARTHUR TEICH, Esq., of Counsel

BEATRICE R. GOTTLIEB  
Official Court Reporter  
Room 230, United States Courthouse  
Foley Square, New York, N. Y. 10007  
REctor 2-3933

BG/r

## A P P E A R A N C E S (Continued):

COUDERT BROTHERS, Esqs.

Attorneys for Defendant

200 Park Avenue

New York, New York 10017

By: MARK D. LEBOW, Esq., of Counsel

SULLIVAN &amp; WORCESTER, Esqs.

Attorneys for Creditors' Committee

225 Franklin Street

Boston, Mass.

By: BARRY PORTNOY, Esq., of Counsel

- - - - -

MR. TEICH: If your Honor please, I appear on behalf of the plaintiff in this matter and I would like to call my witness Mr. Lynch.

THE COURT: Proceed.

M I C H A E L     S.     L Y N C H,     residing at Box 105,  
Sergeantsville, New Jersey, called as a witness  
on behalf of the Plaintiff, having been first duly  
sworn, testified as follows:

## DIRECT EXAMINATION

BY MR. TEICH:

Q     Mr. Lynch, what is your occupation?

A     I am a bank officer in the New Jersey National Bank.

Q     What is your position?

A     Executive vice president.

Q     How long have you been with the New Jersey



National Bank?

A Approximately 12 years.

Q And during that 12-year period did you serve continuously with the New Jersey National Bank in one capacity or another?

A Yes, sir.

Q Are you personally familiar with the transactions involving Applied Logic Corporation, the debtor in this proceeding?

A Yes, I am.

Q And in connection with the complaint filed in behalf of the New Jersey National Bank for a reclamation are you familiar with the transactions, personally familiar with the transaction which occurred on May 25, 1971 involving a loan of \$100,000?

A Yes, I am.

THE COURT: How much was the amount of that loan?

MR. TEICH: The original loan, your Honor, was \$100,000.

Q In connection with that transaction of May 25, 1971 I show you a series of documents and I ask whether or not you can identify these documents?

A (Witness examines same.) Yes, I can.

Q And would you tell the Court what these documents

constitute?

A The first document is the note that was signed at the time as evidence of the debt. It has my initials on it.

The second is a security agreement which I executed for the bank.

The other documents are the various copies of the UCC filings in the jurisdictions in which the collateral was located.

Q Now, these documents were turned over to me as counsel for the New Jersey National Bank at the time this matter was instituted, is that correct?

A Yes, it is correct.

Q And prior to that time were these documents in the possession of the bank under your control?

A Yes.

MR. TEICH: If your Honor please, I would like to introduce at this time these documents and have them marked as Plaintiff's Exhibits.

MR. LEBOW: No objection.

THE COURT: Mark the note as Plaintiff's Exhibit 1.

(Note referred to marked in evidence as Plaintiff's Exhibit 1.)



THE COURT: The agreement will be marked Plaintiff's Exhibit 2.

(Security agreement referred to marked in evidence as Plaintiff's Exhibit 2.)

THE COURT: Copies of the UCC filings will be marked as Plaintiff's Exhibit 3.

MR. TEICH: There are five separate filings, your Honor.

(Copies of the UCC filings referred to marked in evidence as Plaintiff's Exhibit 3.)

THE COURT: What did the security consist of?

MR. TEICH: The security is inventory, accounts receivable and unencumbered assets.

THE COURT: All right, go ahead.

DIRECT EXAMINATION

CONTINUED BY MR. TEICH:

Q Now, Mr. Lynch, referring to Plaintiff's Exhibits 1, 2 and 3 in evidence, would you indicate to the Court the consideration that was paid at the time of the execution of these instruments?

A The consideration was \$100,000.

Q Now, do you have a record of the balance due in connection with this \$100,000 loan?

A Yes, I do. The current balance is \$58,153.44.

Q I beg your pardon, would you repeat that?

A \$58,153.44.

Q Does that include the interest up until today?

A That is with interest accrued until today.

Q Which happens to be --

A \$11.06. *per diem* .

Q Was this calculated in accordance with the terms and conditions of the interest provided therein?

A I believe the per diem is based upon 7 per cent prime which is our current prime today.

Q Mr. Lynch, do your records indicate when the last payment was made in connection with this note?

A Yes. The last payment of principal was made on, I believe, 6/21/73.

Q You say the last payment of principal, was there interest paid after that?

A Interest is paid, I believe, through the end of October.

Q Of what year?

A 1974.

Q Now, when you testify are you testifying from the original records of the bank?

A I am testifying from the ledger cards.

Q They are kept under your jurisdiction?



A Yes, sir.

Q Is this loan now in fact delinquent?

A Yes, sir.

MR. TEICH: I have no further questions of this witness.

CROSS EXAMINATION

BY MR. LEBOW:

Q May I see the ledger cards, please, Mr. Lynch?

A Yes (handing same to counsel).

MR. LEBOW: I propose to show these, if I may, to Mr. Rodefeld and then I will proceed with the examination. Because I think the focus of this matter is our counterclaim I have only a few questions to ask Mr. Lynch at this time and I presume he will remain while we present our case, subject to what I think to be the more important question on the debtor's counterclaim.

THE COURT: Go ahead.

CROSS EXAMINATION

CONTINUED BY MR. LEBOW:

Q Mr. Lynch, I take it for a period of time you were a director of Applied Logic?

A That is true.

Q Do you know the date on which you first became

a director of Applied Logic Corporation?

A Not offhand, no.

Q I take it before the time when you became a director of Applied Logic you were a member of its informal creditors' committee?

A I was a creditor or representative to the bank and in this capacity as a creditor of Applied Logic prior to coming in as a director, that is true.

Q I take it that you are familiar with the agreement known as Recapitalization and Refinancing Agreement dated September 2, 1970 and September 15, 1971?

A I believe I signed both of these.

Q You did sign both of these, is that correct?

A That is correct.

THE COURT: What are the dates of those?

MR. LEBOW: September 2, 1970 and  
September 15, 1971.

THE COURT: Are they Recapitalization Agreements?

MR. LEBOW: The first is a Refinancing Agreement and the second is Recapitalization.

Your Honor, I was going to hand those up to you because I have made copies for you to look at. If I may do that at this time I think it should make things easier in the presentation of our case later on.



Q Mr. Lynch, I take it that you were aware that Applied Logic Corporation could not meet their debts as they became due in September of 1970, is that correct?

A I would say yes, I was aware that they had difficulties.

Q And I take it that you were aware that they could not meet their debts as they became due in 1971 and in particular in September?

A I believe by then they had failed to meet required payments.

Q Now, Mr. Lynch, I show you copies of credit advices dated in December of 1974 --

MR. TEICH: If your Honor please, may I interrupt at this particular time? I was withholding any comment on Mr. Lebow's interrogation of Mr. Lynch. As I understand it they were not within the grounds of the complaint.

THE COURT: Yes.

MR. TEICH: I would object to any continued interrogation by Mr. Lebow of Mr. Lynch with reference to the counterclaim until such time as Mr. Lebow should present his case and I respectfully suggest whatever Mr. Lynch has testified to up until now be stricken because it is not germane to the complaint.

MR. LEBOW: Your Honor, what I am directing myself

to is the particular question answered by Mr. Lynch that the loan is delinquent.

It is our claim that the loan has been paid because New Jersey National Bank in December of 1974 took \$244,000 of the debtor's money.

I can perfectly well put that on in my case, if your Honor finds it more convenient.

THE COURT: I will overrule the objection.

CROSS EXAMINATION

CONTINUED BY MR. LEBOW:

Q I show you copies of certain credit advices dated in December of 1974 and ask you if those reflect true transactions taken by your company?

A (Witness examines same.) Yes, they do. They represent payments on the Applied Logic unsecured loan.

MR. LEBOW: Your Honor, I ask that they be introduced as Defendant's Exhibit A, these credit advices.

THE COURT: Show them to counsel.

MR. TEICH: I have no objection.

THE COURT: Mark it.

(Credit advices referred to marked in evidence as Defendant's Exhibit A.)

MR. LEBOW: I have no further questions, your



Honor.

THE COURT: What does this indicate?

THE WITNESS: These are payments, your Honor, that were applied against another loan of Applied Logic, three separate payments.

THE COURT: Made by Applied Logic?

THE WITNESS: Made by the offsetting of C.D.'s.

THE COURT: In other words, this is not a transaction between the Bank and Applied Logic; these were actions that the Bank took?

THE WITNESS: Yes.

THE COURT: Upon themselves?

THE WITNESS: Yes.

THE COURT: They just applied C.D.'s to the indebtedness?

THE WITNESS: Yes.

THE COURT: And they applied in the first instance --

MR. LEBOW: Your Honor, you will see --

THE COURT: Let him answer.

THE WITNESS: \$100,000.

THE COURT: They applied \$101,551.11 and then the second one \$100,739.58, and then \$41,485.42.

Now, I do not get the whole picture then because

according to your testimony there was a loan of \$100,000.

THE WITNESS: There is an additional loan.

MR. TEICH: If your Honor please --

THE COURT: That has not been testified to yet, is that it?

THE WITNESS: That is true.

THE COURT: According to your testimony so far you testified about a \$100,000 loan on May 25, 1971, is that right?

THE WITNESS: Yes, sir.

THE COURT: And that is not the only loan?

THE WITNESS: That is correct.

THE COURT: Okay.

MR. TEICH: If your Honor please, this was the thrust of my objection.

THE COURT: I might as well get the whole picture. I will get it anyhow.

Any redirect examination?

MR. TEICH: Yes, your Honor.

THE COURT: Go ahead.

REDIRECT EXAMINATION

BY MR. TEICH:

Q Mr. Lynch, again I ask, have you been personally



familiar with the entire transaction involving the New Jersey National Bank and Applied Logic since the inception of the entire transaction?

A Yes.

Q Now, did Applied Logic borrow additional moneys from the bank at any time?

A Yes.

Q How much was borrowed?

A The original loan was \$650,000. In addition to that they borrowed \$750,000 of which the \$100,000 we originally discussed was a part.

Q And when were those loans made?

A The \$650,000 loan was made prior to the date of the two agreements. I am not sure of the exact date. The \$750,000 loan was made under the first agreement, about that time.

THE COURT: When you say the first agreement, you mean the 9/2/70 agreement?

THE WITNESS: Yes, sir.

THE COURT: It was made at or about that time?

THE WITNESS: Around that time. It was part of that agreement, your Honor.

Q And the 750,000 of which 100,000 is part and parcel?

A Yes.

Q Since the matter has been opened and since the Judge would like to have the complete picture, will you tell us what happened to the \$650,000 loan?

A As part of the recapitalization agreement, which is the second agreement, we accepted payment of half the loan or I should say -- well, half of the principal amount of the loan, \$325,000 in the form of Applied Logic stock and warrants.

The other \$325,000 remained on the books as a loan from the company at a reduced interest rate and as the loan against which these C.D.'s were applied.

Q So that of the original loan of \$650,000 -- I would like to understand correctly -- 325,000 was exchanged for stock and warrants by the New Jersey National Bank?

A Yes, sir.

Q Under the first agreement?

A Under the second agreement.

THE COURT: The recapitalization agreement.

Q The recapitalization agreement in 1971?

A Yes.

THE COURT: I have got the picture. 325,000 was taken in the form of stock and warrants and 325,000



remained on the books at a reduced interest,  
against which they applied the C.D.'s?

THE WITNESS: Yes, sir.

Q The \$650,000 loan was reduced to \$325,000.

How much was due on that \$325,000 loan prior  
to the time that these transactions --

THE COURT: Just a minute, please. I do not  
want to get confused.

In his testimony the \$750,000, the additional  
750,000 -- what he was testifying to, was broken  
down into two 325,000 --

THE WITNESS: No, sir, that is the 650,000.

THE COURT: I suppose you will get to the 750,000.

MR. TEICH: I will, your Honor. We are still  
on the 650,000.

THE COURT: All right.

Q Once you reduced your loan to \$325,000 I take  
it this is still an unsecured loan, is that correct?

A Yes, sir.

Q How much was due on that \$325,000 prior to the  
time that the offsetting transactions occurred, to which  
you testified?

A 325,000 plus approximately \$4,000 of unpaid interest  
which was back to 1970 or 1971, plus interest from some time

last summer -- I am not sure when -- I am not sure of the exact date.

Q So that no interest was paid for several months prior to the time that this offset was exercised?

A Yes, sir.

Q So much for the \$650,000.

Now, the \$750,000 that was made under the terms and conditions of the first agreement; how was that broken down?

A That was in the form of 100,000 secured by the corporate assets.

Q This is what you testified to originally?

A Yes.

THE COURT: 100,000?

THE WITNESS: Secured by corporate assets; \$300,000 secured by stocks and guarantees of people that were at the time of the loan principals of the company or major stockholders and 350,000 was secured by the guarantee -- originally was secured by equipment which became the guarantee of Digital Equipment Corp.

THE COURT: Let me get that again; 100,000 was secured by corporate assets and 300,000 by stocks and guarantees of --



THE WITNESS: Various individuals.

THE COURT: And 350,000 by --

THE WITNESS: Digital Equipment Corp.

THE COURT: Where did they come in?

THE WITNESS: I beg your pardon?

THE COURT: What did you get from Digital?

THE WITNESS: Digital Equipment Corp. was a creditor at the time of the original agreement.

THE COURT: Did they give you a guarantee?

THE WITNESS: Well, we took the equipment at the time the original agreement was structured, which was released to Digital for the giving of their guarantee.

THE COURT: You took equipment?

THE WITNESS: We took equipment to secure the loan and that equipment was released to Digital Equipment Corp., or our security interest was released to Digital Equipment Corp.

THE COURT: You took a security interest in equipment of Applied Logic?

THE WITNESS: Yes.

THE COURT: You did not take the physical equipment?

THE WITNESS: No.

THE COURT: You took a security interest?

THE WITNESS: Yes.

THE COURT: And you assigned that interest to Digital Equipment Corp.?

THE WITNESS: I believe at the time we took the interest they took a second and we released theirs -- I am not sure whether it was assigned or whether released with a guarantee.

THE COURT: Then you have no interest in that now?

THE WITNESS: In the equipment, that equipment?

THE COURT: Yes.

THE WITNESS: No sir, that equipment was repossessed by Digital Equipment Corp.

THE COURT: They did not repossess; I guess they foreclosed?

THE WITNESS: It was a friendly transaction.

THE COURT: Is that where they acquired it from originally?

THE WITNESS: Yes.

THE COURT: Then repossess is the right word.

All right, go ahead.

REDIRECT EXAMINATION

CONTINUED BY MR. TEICH:

Q Now, just to keep the record clear with



reference to the \$750,000 transaction, \$100,000 of that transaction was the loan that you testified to earlier in your testimony on which there is presently due \$58,153.44 plus interest from today, is that correct?

A That is correct.

Q The second portion of the \$750,000 loan is represented by outside guarantors in the sum of \$300,000, is that correct?

A That is correct.

Q And that is not in issue at this point, is that correct?

A That is correct.

Q And the \$350,000 guaranteed by Digital Equipment Corp. is also not in issue at this point, is that correct?

A That is correct.

Q So that the only thing that the New Jersey National Bank seeks insofar as the \$750,000 loan is the balance due on our security agreement and financing statements?

A That is correct.

THE COURT: What you want then is the corporate assets to the extent of the balance due, some \$58,000?

MR. TEICH: That is correct, sir.

Now, your Honor, if I may I would like to go back

and clarify the offset because we have testimony before your Honor and I gather your Honor would like to hear the whole thing?

THE COURT: Yes.

Q Mr. Lynch, you are familiar with the transaction of Applied Logic or are you familiar with the operations of Applied Logic from prior to the date of the first agreement, is that correct?

A That is correct.

Q And at that time was Applied Logic so far as you know doing their banking at the New Jersey National Bank?

A Yes, sir.

Q How far back does the banking arrangements with the New Jersey National Bank go as far as Applied Logic is concerned, so far as you know?

A Approximately 1967.

Q So that the banking arrangements of Applied Logic preceded the \$650,000 loan, is that correct?

A Yes, sir.

Q Now, did Applied Logic continue to maintain their banking arrangements with the New Jersey National Bank?

A Up until the time of the bankruptcy.

Q Until the time this proceeding was instituted?



A Until the time this proceeding was instituted.

Q What was the nature of the account of Applied Logic?

A They had a general operating account with our bank.

MR. LEBOW: Your Honor, I would like to object to that conclusion because so long as you take it with a grain of salt I will withdraw my objection.

THE COURT: I will take it with a grain of salt.

Q Is there anything in your records to indicate that this is anything other than a general operating account?

A No.

Q Did you ever receive any instructions, or to your knowledge did any member of the bank receive any instructions that this was anything other than a general operating account?

A No.

Q To your knowledge do you know whether Applied Logic maintained any bank account with any other banking institution?

A Yes. They have a payroll account or they had a payroll account at one of the Princeton banks. To my knowledge that is the only account that they have had outside of ours in several years.

Q What do you characterize as a payroll account?

A An account in which each week we used to transfer money at their request so that they could meet their payroll checks.

Q And that was an account at the New Jersey National Bank which would be transferred at their instructions to the Princeton bank?

A Yes. I think it was the First National of Princeton but I am not sure.

Q And you say so far as you know there were never any other banking arrangements with any other banking institution and Applied Logic?

A I am sure at the time prior to 1970 they probably had an account at the First National City Bank and they probably had an account at the Chase Manhattan Bank. Since they were borrowers there I would assume they had checking accounts.

Q Have you any idea of the magnitude of the account that was in the New Jersey National Bank from its inception?

A It varied. At times it averaged one half million dollars. For the last couple of years I doubt that it averaged \$30,000 although it fluctuated.

Q Is this the account that was deposited to and drawn from on a regular basis?



A Yes, sir.

Q How frequently would you characterize regular basis?

A They wrote checks against the account every day and made deposits as much as five times a week, I guess.

Q And this continued from prior to the time of the \$650,000 loan down to the time that the account was curtailed in December of last year?

A Yes.

Q There was a reference made in your original testimony to Certificates of Deposit, is that right?

A Yes.

Q Would you indicate to the Court how these Certificates of Deposit came about?

A We were contacted by the company and asked to sell them Certificates of Deposit, which we did at their request.

Q Approximately when did that start, if you know?

A The first certificate was purchased on the 21st of January, 1972.

Q How much was that certificate?

A \$100,000?

Q And were there additional certificates purchased from time to time?

A Yes, sir.

Q Do you have a record of those certificates that were deposited?

A Purchased, yes sir.

Q I beg your pardon, that were purchased?

A Yes, sir.

Q You are testifying from a sheet of paper; may I inquire as to what that sheet of paper is?

A That sheet of paper is a record of the transactions of Certificates of Deposit which was generated in order to show for the purposes of today.

Q Now, was this record taken from the books and records of the Bank?

A Yes, sir.

Q Was it made under your supervision at your request?

A Yes, sir.

MR. LEBOW: Your Honor, I consent to its introduction into evidence.

THE COURT: Mark it Exhibit 4.

(List showing purchases of C.D.'s by the defendant referred to marked in evidence as Plaintiff's Exhibit 4.)

Q Now, these purchases of Certificates of Deposit



was started in January of 1972 and continued for quite some time, and the record speaks for itself; how did it come to pass that these Certificates of Deposit were purchased?

A The company asked us to sell it to them.

Q When you say the company, a representative of the company would contact you?

A Contact not me. I did not directly handle it.

Contacted one of the girls that works there.

Q And as a result of the contact were Certificates of Deposit purchased on behalf of the company?

A Yes.

Q How did they pay them?

A By charges to the account we discussed previously.

Q Did the New Jersey National Bank have more than one account for Applied Logic other than the Certificates of Deposit?

A The checking account.

Q Which you already testified to?

A Yes.

Q Now, from time to time after January 21, 1972 additional purchases were made according to this record, is that correct?

A That is correct.

Q Would you indicate to the Court what disposition was made from time to time of these Certificates of Deposit when they matured?

A When they were matured they were credited to the company's account.

THE COURT: Or maybe sometimes were rolled over.

THE WITNESS: Your Honor, even when they were rolled over they were credited to the account and a new one charged to the account.

Q What you are saying is they were not in fact rolled over but went into this particular account?

A If you notice there are a couple of instances where the rollover lagged for a day and the money stayed in the company account for a day or two.

Q Now, from time to time during the course of approximately three years did the balance of the Certificates of Deposit vary?

A Yes sir, substantially.

Q Have you any idea why they varied?

A As the company had excess funds or had need of the funds on deposit.

Q When you say excess funds, where were the excess funds?

A I assume the excess funds were the C.D.'s.



Q When the C.D.'s were purchased, where did the funds come from?

A From the general account.

Q Now, did you ever receive any instructions from the company relating to these C.D.'s and what they would be held for?

A No. The only instructions we received were phone calls with written confirmation to make purchases.

Q Did you ever receive any instructions to cash in any of these C.D.'s and put them in the account?

A That was automatic.

Q So it was automatic when the C.D.'s expired, they went into the regular account and if they wanted to purchase additional C.D.'s that is when the instructions would come in to purchases these C.D.'s?

A That is correct.

Q Was there any special earmark for any of these C.D.'s?

A They were regular C.D.'s.

Q In fact isn't there a C.D. presently in your possession in the amount of \$60,000?

A Yes, there is.

Q Will you tell the Court about that?

A I believe Applied Logic is in the midst of a tax suit

on sales tax with the State of New Jersey. In order to continue the action they had to either pay the tax or post a bond. The bonding company required a letter of credit to secure their bond and we issued a letter of credit based upon the letter of credit being secured. The amount is \$60,000 and we took a lien on one of the C.D.'s for the purpose of securing that and we are still holding \$60,000.

Q And in fact the letter of credit is still outstanding?

A It is still outstanding.

Q Was this Certificate of Deposit of \$60,000 specifically earmarked in connection with this letter of credit with reference to instructions from either counsel for the company or one of the principals of the company?

A The C.D. was originally \$100,000, and I would say yes, that one was specifically assigned for the purpose of securing the letter of credit.

Q Have you any idea of when that occurred?

A I am not sure. I can tell from the records I have here.

Q But it presently exists?

A Yes, it presently exists and it was reduced to the amount of the lien.



Q There is no reflection of that \$60,000 on this particular card designated as Plaintiff's Exhibit 4?

A No, but I can tell you which C.D. it is if that is important. It is the last one that matured, I believe.

Q As a matter of fact the card does indicate a balance of \$60,000 in this account; was that \$60,000 specifically earmarked by direction of the company?

A Yes, sir.

Q And still remains in your possession subject to the letter of credit?

A Yes.

Q And you are equally certain that all the other C.D.'s purchased were not specifically earmarked for any purpose?

A I don't know. There was one other loan at one time that was also secured by a C.D. and it was to guarantee a lease transaction with IBM -- I believe it was IBM -- and the transaction went out. I don't know whether it was one of these C.D.'s or a separate C.D. I don't remember.

Q That no longer exists?

A No longer exists.

Q Then in December of 1974 your bank at your direction applied the balance of the C.D.'s excepting for

the \$60,000 under your claim as an offset as against the balance of \$325,000 which was the unsecured loan remaining from the original \$650,000, is that correct?

A That is correct.

MR. TEICH: Your witness, sir.

THE COURT: Do I understand you to say you were a director of Applied Logic?

THE WITNESS: At one point, yes.

THE COURT: How did that come about?

THE WITNESS: As part of the --

THE COURT: Recapitalization?

THE WITNESS: I believe it was part of the agreement, your Honor, the first agreement, certain creditors became directors of the company.

THE COURT: Did they form a committee?

THE WITNESS: No, we were elected directors.

THE COURT: And how long did you remain a director?

THE WITNESS: Two years, approximately.

THE COURT: And that would be when?

THE WITNESS: I resigned from Applied Logic in June of 1974. I am not firm on that date but it was approximately then.

MR. LEBOW: July 2, 1974.

THE COURT: What was the date of the setoff?



MR. LEBOW: December 3, 1974, Judge.

I prefer that you call them alleged setoffs for the time being.

THE COURT: What is that?

MR. LEBOW: I prefer that you call them alleged setoffs for the time being.

THE COURT: What I call them does not matter. They set them off, didn't they?

MR. LEBOW: No question about that.

THE COURT: All right, so it was a setoff as far as they were concerned. Whether it was a permissible one or not is another question, but the act they performed was certainly a setoff. Whether it was a legal setoff or not is another question.

MR. LEBOW: Your Honor, I am going to ask a few questions because I see what trouble I got into the last time when I asked a few questions and I will see that it does not happen this time.

REXCROSS EXAMINATION

BY MR. LEBOW:

Q Mr. Lynch, you understand it is our theory the loan was paid off because of the first setoff on December 3, 1974. Would you be gracious enough to check your ledger card and tell us what the amount of the

indebtedness was plus the accrued interest up to December 3, 1974?

A I cannot give you the accrued interest figure up to that date.

Q Can you give us an approximation of what the indebtedness was on December 3, 1974?

A The principal amount has not changed. I gave you that date, June 21, 1973.

Q And what is that amount?

A That amount then was \$57,249.83.

Q I believe in your complaint you ask for \$56,862.93; is that the figure as of December, do you think?

A (Witness examines papers.) I apologize -- there was a payment on May 24, 1974 of \$386.90 which brings us to the \$56,862.93. You are correct.

MR. TEICH: What was the date of that?

THE WITNESS: May 24, 1974.

Q Mr. Lynch, when Mr. Teich was asking you questions you mentioned about \$300,000 of personal guarantees that were required to be set up by the recapitalization and refinancing agreements.

I take it you have realized most of that \$300,000 in your efforts to collect on the outstanding balance of the total loan picture?



A Most, yes.

Q Now, you mentioned that after the execution of these agreements that so far as you know there was no other bank account except perhaps for the payroll account maintained by Applied Logic Corporation; isn't that because this agreement required that all bank accounts by Applied Logic be conducted through your bank?

A That is correct.

Q One thing more that Mr. Teich asked you when he presented with my help Plaintiff's Exhibit 4 in evidence.

Now, I take it that these last C.D.'s that were allegedly setoff by the bank were purchased approximately 30 days beforehand in each particular case, making the fact that they were acquired by you around the end of October 1974 in each case?

A (Witness examines ledger card.) From looking at the card I would say that that is correct, the C.D.'s were for 30 days only at that time. That was not always the case but at that time it was.

Q So these were 30-day C.D.'s?

A Yes.

MR. LEBOW: I have no further questions.

THE COURT: You may step down.

(Witness excused.)

MR. LEBOW: I have one witness, your Honor.

THE COURT: We will take a short recess.

(Recess taken at 3:00 o'clock p.m. and  
hearing resumed at 3:15 o'clock p.m.)

MR. LEBOW: Your Honor, the debtor calls Mr. Mobach.

M A R T I N        T.   M O B A C H,        residing at  
97 Hardy Drive, Princeton, New Jersey 68540, called  
as a witness on behalf of the Debtor-Defendant,  
having been first duly sworn, testified as follows:

MR. LEBOW: Your Honor, on page 2 of our memo  
Mr. Teich and Mr. Portnoy pointed out to me that  
I made two mistakes as to dates.

The Bank's complaint was filed April 29th,  
which is on the third line of page 2, and the fourth  
line is April 30th.

THE COURT: The third line is what?

MR. LEBOW: April 29th and not June 16th, which  
is today's date.

THE COURT: Very well.

DIRECT EXAMINATION

BY MR. LEBOW:

Q     Mr. Mobach, referring to Defendant's Exhibit A  
in evidence which was previously introduced, do these  
reflect the applications by the bank of your C.D.'s to



the extent indicated on that document?

A (Witness examines same.) I don't understand "applications."

Q Are those the alleged setoffs which the bank claims and for which they took your Certificates of Deposit?

A That is correct.

Q Now, to complete the picture, Mr. Mobach, I show you a copy of a document dated April 1, 1975 and ask you what that shows?

A (Witness examines same.) That is a charge to the Applied Logic account in the amount of \$1,682.98.

Q And was that the balance in your checking account at the New Jersey National Bank as of the date indicated on that document?

A That is correct.

MR. LEBOW: Your Honor, I ask that this document be introduced into evidence as Defendant's Exhibit B.

MR. TEICH: May I inquire of my client with respect to this?

THE COURT: Yes.

(Counsel confers with client.)

MR. TEICH: No objection.

THE COURT: Mark it.

(Credit advice of bank as of April 1, 1975 referred to marked in evidence as Defendant's Exhibit B.)

Q Now, Mr. Mobach, I show you another document indicating another credit advice, will you please tell us what that document represents?

A (Witness examines same.) This is a receipt from the New Jersey National Bank acknowledging as of April 4, 1975 that it received against a cashier's check dated March 30, 1975 \$830.62 as interest from a Certificate of Deposit, and that it was further applied against a loan in the name of Applied Logic Corporation.

MR. LEBOW: I ask that it be put in evidence as Defendant's Exhibit C.

MR. TEICH: No objection.

(Credit advice referred to marked in evidence as Defendant's Exhibit C.)

Q Now, I take it that Exhibit C represents interest on one of the Certificates of Deposit that we were previously talking about, is that correct?

A That is correct.

Q Now, you only had one account at the New Jersey National Bank, is that correct?

A Yes, indeed.



Q And I take it that was your checking account number 320358-9, is that correct?

A That is correct.

Q Now, I show you, Mr. Mobach, at this time the recapitalization and refinancing agreements dated September 2, 1970 and September 15, 1971, between Applied Logic Corporation, Chase Manhattan Bank, The First National City Bank, the New Jersey National Bank and others, and ask you if these are true copies of agreements entered into by the various creditors including the New Jersey National Bank and Applied Logic Corporation?

A (Witness examines same.) Yes, they are.

MR. LEBOW: I ask that these two agreements be introduced as Defendant's Exhibit D in evidence.

THE COURT: Offer them one at a time.

MR. LEBOW: I ask that the September 2, 1970 agreement be introduced as Defendant's Exhibit D.

THE COURT: Is that the recapitalization agreement?

MR. LEBOW: The Refinancing agreement.

THE COURT: Let counsel see it first.

Off the record.

(Discussion held off the record.)

THE COURT: Counsel has no objection to both

going in as one exhibit, is that right?

MR. TEICH: Your Honor please, without holding up the Court these indicate they are copies of the original and I have no objection.

THE COURT: All right, mark then as Exhibit D.

(Agreement dated September 2, 1970 and agreement dated September 15, 1971 marked in evidence as Defendant's Exhibit D.)

Q Mr. Mobach, do you recall who executed these agreements on behalf of the New Jersey National Bank?

A Mr. Michael Lynch.

Q And he is the gentleman who previously testified here today, is that correct?

A That is correct.

Q Now, Mr. Mobach, I take it that the first agreement, the refinancing agreement provided, among other things, that a moratorium of payment of debts of Applied Logic, and the recapitalization agreement provided for a forgiveness of certain repayments as scheduled on the balance, is that correct?

A Yes, indeed.

Q Now, what if anything did that agreement, the first agreement, require you to do with respect to the New Jersey National Bank in your banking activities there?



A It required that we were to cease all other banking activities and solidify everything in an account with the New Jersey National Bank.

Q And prior to that time did you have other banking accounts?

A Yes, we did.

Q Where were they?

A The Chase Manhattan Bank, the First National City Bank, the First National Bank of Princeton.

Q And I take it after this agreement was signed you no longer had the other bank accounts?

A With the exception of the First National Bank of Princeton for the payroll, since it was required by statute in New Jersey that we maintain a payroll account with the bank that was locally there for the employees to cash their checks.

Q And you had local employees at your Computer Service Center in Princeton?

A Yes, we did.

Q Now, what kind of an account did this agreement set up; how was it described?

A The account at the New Jersey National Bank?

Q Yes.

A It was described partially as a close-out debt account.



THE COURT: As a what?

THE WITNESS: A close-out debt account.

3 Q Pursuant to these agreements what payments were made to that account?

MR. TEICH: May I ask counsel to permit the witness to testify to the balance before he asks another question.

MR. LEBOW: I am sorry.

4 A (Continuing) Furthermore, as an account to be monitored by the New Jersey National Bank on behalf of the creditor parties.

Q Now, what payments were made out of this account?

THE COURT: The account was described as a close-out debt account, the account to be monitored by the bank on behalf of the creditor body and out of the account was to be paid -- and there we left it off.

5 THE WITNESS: Your Honor, under the financing agreement of 1970 the accounts payable of the company after the recapitalization agreement on September 15, 1971, payments to creditor parties as well in addition.

Q How were the creditor parties paid out of this account? What did they get?



A They got 50 per cent of the positive cash flow of the current month or 50 per cent of the average positive cash flow of the preceding three months, whichever was lower.

Q And I presume that periodically payments were made out of this checking account to these creditor parties?

A That is correct. Every month we sent a notice out to all the parties to the recapitalization agreement indicating what the cash flow was for that month, what the average was for the preceding three months. The amount was positive. 50 per cent was distributed based upon a previously agreed upon formula to the parties entitled to payment.

Q And I presume that the parties, since this was your only checking account, were paid from this account?

A That is correct.

Q I show you a letter dated March 3, 1972 --

THE COURT: Let me get a couple of things straight.

This account was established after the first agreement, 9/2/70, and out of that was to be paid the accounts payable listed in that agreement?

THE WITNESS: No. The accounts payable of the



company, your Honor.

THE COURT: Then after the recapitalization agreement how was it to be repaid?

THE WITNESS: In addition to the previously mentioned categories, payments to the creditor parties--

THE COURT: Mentioned in the agreement?

THE WITNESS: It was mentioned in the recapitalization agreement how the payments were to be made.

MR. LEBOW: Your Honor, if I may, in other words we had one account there which was used as a general checking account for some purposes but the checking account was also used to pay these creditors under the informal arrangement with creditors, memorialized by these two agreements so that the funds, roughly, of 50 per cent cash flow were also paid out of this account to creditors. These agreements, your Honor, required us to pay generally 50 per cent --

THE COURT: This first agreement you said provided this to be the every-day regular business account.

MR. LEBOW: That is correct, but the checking account was also used to pay creditors, pay out creditors under these agreements to the extent of 50 per cent of the cash flow.

It is a mixed account. I do not want to claim



it is a special account just for creditors. It was used for both purposes.

THE COURT: All right, go ahead.

DIRECT EXAMINATION

CONTINUED BY MR. LEBOW:

Q I show you this letter dated March 3, 1972 from Mr. Lynch to Applied Logic, and ask you if you can identify that?

8 A (Witness examines same.) This is a letter dated March 3, 1972 from the New Jersey National Bank with Mr. Lynch's signature requesting that the company send him current agents of our accounts receivable each month and this should be sent directly to the creditor parties.

Q And did you in fact send them these monthly reports about your accounts receivable?

A Yes, we did.

Q While Mr. Teich looks at that, if I may show you a letter dated January 18, 1972, and again I ask you if these are the summary reports that you sent on accounts receivable periodically to the New Jersey National Bank?

A (Witness examines same.) That's right.

MR. TEICH: No objection to the March 3, 1972 letter.

MR. LEBOW: I ask that the March 3, 1972 letter

be marked as Defendant's Exhibit E in evidence.

(March 3, 1972 letter referred to marked in evidence as Defendant's Exhibit E.)

MR. TEICH: I have no objection to the January 18, 1972 letter.

THE COURT: Mark it as Exhibit F.

(January 18, 1972 letter referred to marked in evidence as Defendant's Exhibit F.)

Q Now, what if anything did these agreements require you to do with respect to raising money?

A The recapitalization agreement of September 15, 1971 required the company to raise \$500,000.

Q And did the company in fact raise this money?

A Yes, we did.

Q And what did you do with the money?

A When the money came in we deposited it at all possible in Certificates of Deposit with the New Jersey National Bank.

THE COURT: I did not get the answer.

THE WITNESS: If at all possible we deposited it.

THE COURT: That means you may not have deposited any.

THE WITNESS: We deposited it in Certificates



of Deposit or in the checking account.

THE COURT: How did you raise it?

THE WITNESS: Through the sale of equity in the company.

THE COURT: In other words, you sold stock?

THE WITNESS: That is correct, your Honor.

Q And you had to do that under the 1971 agreement, is that correct?

A Yes.

Q At one time did you have \$500,000 in Certificates of Deposit in the New Jersey National Bank?

A Yes, we did.

Q Did you have access to these Certificates of Deposit? Could you have used them and put them in your checking account if you wished?

A No, there were occasions when we were refused such access.

Q Now, directing your attention to May 1974 did Applied Logic Corporation make any request of the bank with respect to removal of these Certificates of Deposit?

A I requested on various occasions to put these Certificates of Deposit --

MR. TEICH: I ask that the witness respond to the question as put. The question was in May of 1974.

THE COURT: Yes, he is talking about May, I assume.

THE WITNESS: That is correct.

MR. TEICH: I understood him to say at various times.

THE WITNESS: May 1974 and on various other occasions was my response.

THE COURT: What happened?

THE WITNESS: We requested that these Certificates of Deposit be put with another bank in order to get a higher interest rate.

Q In other words, Certificates of Deposit were running at a higher rate at other banks such as the First National, City Bank, and Chase Manhattan?

A Correct.

Q Who did you speak to at the bank with respect to this?

A Mr. Lynch.

Q What if anything did he say?

A That we were not allowed to deposit that money in other banks. Under the agreement it had to stay with the New Jersey National Bank.

Q Now, directing your attention to June of 1974 did you attempt to make any attempts to withdraw any

(15)



portion of those Certificates of Deposit and use them for the expenses of the company?

A Yes, we attempted to withdraw \$100,000.

Q For what purpose?

A For the purpose of meeting payroll.

Q And what, if any, was the response of the New Jersey National Bank?

A The response was that Mr. Lynch had given orders that we could not take this money into our account.

Q And so they would not let you take out \$100,000, is that correct?

A That is correct.

Q At that time what was the total amount of Certificates of Deposit that the New Jersey National Bank held?

THE COURT: At what time?

MR. LEBOW: May and June of 1974.

10  
A 300,000 of which 60,000 was under lien by the State of New Jersey with attachments.

Q Now, how did the transaction take place in which the \$60,000 were set aside to cover the tax claim of the State of New Jersey for sales tax; how did that happen? Did you ask Mr. Lynch to set this aside?

A At a Board meeting earlier that year I asked Mr.

Lynch how about to secure collateral for the State of New Jersey since the bond that we had to post was extremely high, and it was worked out with him that this was the way it could be done.

Q Did you have to ask him to set aside this \$60,000?

A Actually a \$100,000 C.D. was taken as collateral for that \$60,000 lien at that time.

Q And what if anything did you ask Mr. Lynch? Did you have to ask him to do this or did you do this automatically?

A We asked him to do it.

Q And he consented to it?

A That is correct.

Q Do you remember when Mr. Lynch first became a member of the Board of Directors of Applied Logic Corporation?

A December 20, 1971.

Q Pursuant to these agreements which were marked as Defendant's Exhibit D, what if any control did the creditors have after these agreements were signed over the Board of Directors of Applied Logic Corporation?

A It was a creditors' committee of which Mr. Lynch was also a member.

Q Did the creditors' committee eventually get



elected to the Board?

A Not that creditors' committee. It was a creditors' committee that insisted upon having an equal number on the Board of Directors so that it would constitute a majority on the Board of Directors.

THE COURT: What constituted a majority?

THE WITNESS: The members of the creditors' committee nominated five members to the Board of Directors out of seven.

1a  
MR. ~~LEBOW~~<sup>Lebow</sup>: What he is trying to say is the five-member creditors' committee which existed before became a 5/7 control of the Board of Directors but the names of the creditors were different. Different individuals changed from the creditors' committee to the Board of Directors.

17  
THE COURT: They insisted that five creditors be on there, is that what it is?

18  
MR. LEBOW: Correct.

19  
THE WITNESS: Yes.

20  
DIRECT EXAMINATION

21  
CONTINUED BY MR. LEBOW:

22  
Q And were five creditors elected to the seven-man Board of Directors in 1971?

23  
A Yes.

Q And Mr. Lynch was one of them, I take it?

A Yes.

Q Incidentally, who were the other two members of the Board of Directors thereafter?

A One outside director and myself.

Q Now, did there come a time when Mr. Lynch resigned as a Director?

A Yes.

Q And when was that?

A July 2, 1974.

Q What if anything happened immediately prior to Mr. Lynch's resignation with respect to information about the company?

A At a Board meeting in May of 1974 Mr. Lynch moved we that/were to approach the creditor parties to either recapitalize the company, redo, in other words, the recapitalization agreement of September 15, 1971, or obtain a waiver as to the requirements of the positive cash flow which by June 30th of that year was set according to the recapitalization agreement at \$300,000 for the 12 months preceding.

Q And I take it that you neither raised the \$300,000, obtained a waiver or succeeded in renegotiating a re-recapitalization agreement?



A That is correct.

Q And do you know which creditors, if any, on this list objected to those alternatives?

A No. The company proceeded to invite the creditor parties to a June 14th meeting.

THE COURT: What does he mean by creditor parties?

MR. LEBOW: These are major banking and leasing creditors. There are four banks, the Chase Manhattan, the First National City, the First National Bank of Princeton and the New Jersey National Bank, and there are five leasing creditors and these constitute about 95 per cent of the debt.

Throughout all these agreements, your Honor, the trade creditors were paid 100 cents on the dollar, as well as employees, and taxes, so that was always part of these agreements.

All the trade creditors were paid 100 cents on the dollar and that is why we have very few creditors in this case but nine very large ones.

THE COURT: And these nine is what he calls the creditor parties?

MR. LEBOW: That is who he refers to.

THE WITNESS: I am sorry I used that but it was

always used in the SEC --

THE COURT: I don't care what you call it as long as I understand it. You can call them anything you want so long as I know what you are talking about. Off the record.

(Discussion held off the record.)

DIRECT EXAMINATION

CONTINUED BY MR. LEBOW:

Q Now, I take it you could not renegotiate your recapitalization agreement or obtain a waiver, or the \$300,000 cash flow requirement under Defendant's Exhibit D because a creditor or creditors would not go along with the picture, is that correct?

A That is somewhat correct. The Board of Directors authorized me to invite the creditor parties to a meeting with the company on June 14, 1974.

Instead of meeting with the company the creditor parties elected -- the creditor parties to the recapitalization agreement elected to meet separately, and did not meet with management of the company.

Q And did there come a time thereafter when Mr. Lynch resigned?

A On July 2, 1974.

Q And what if anything did the bank do next?



A On July 5th ensuing I received a letter from the bank dated July 3rd accelerating the total amount due.

Q So they accelerated all the indebtedness due to the bank, is that correct?

A That is correct.

Q But no application of your Certificates of Deposit were made until December, is that correct?

A Yes.

Q Now, lastly, Mr. Mobach, you heard what Mr. Lynch said "with a grain of salt", that your one account at the bank was a general account; was it?

A I don't see how it could be a general account if it is monitored and supervised by the bank.

Q Did you have access to the Certificates of Deposit whenever you wished to?

A As I mentioned before, we had some access. On occasion, however, the access has been refused.

THE COURT: When you say monitored and supervised by the bank, just what do you mean? You could not draw a check without the bank's approval?

THE WITNESS: That is correct, sir. Officially the bank was in charge to monitor the finances of the company.

THE COURT: What do you mean by monitoring?

Do you mean if you wanted to draw a check you had to get it initialled by somebody?

THE WITNESS: This would have been the normal procedure. However, I was able to discuss with Mr. Lynch that we would dispense with that and that the company could write its checks provided that we would give them a copy of the accounts receivable ageing and also the accounts payable ageing.

THE COURT: When you get down to it you were able to handle it like any other account; you paid your bills drawing on that account without any preliminary approval of the check.

THE WITNESS: On occasion we had had preliminary approval of the check.

THE COURT: When would that be? Would it be when it was an extremely large check?

THE WITNESS: That is correct.

DIRECT EXAMINATION

CONTINUED BY MR. LEBOW:

Q Were there particular examples when Mr. Lynch telephoned you about a particular check; can you give us an example?

A The one that comes to mind at the moment is a check to Webster-Todd.



Q What was that check for, and what did Mr. Lynch do with that check?

A The check was for the purpose of paying for the land rental.

THE COURT: For the payment of what?

THE WITNESS: The land rental.

THE COURT: Land rental?

THE WITNESS: Yes.

Q And what was the conversation with Mr. Lynch as near as you can remember it?

A I explained it and the check went through.

Q And I take it that Mr. Lynch was a member of the Board of Directors at this time, or did he cease to be a member of the Board at that time?

A At one time he was a member of the Board and it happened again in December of last year when he was no longer a Director.

THE COURT: The account did not have a special name, it was in the name of the company, the account was just Applied Logic Corporation, is that right?

THE WITNESS: Yes.

THE COURT: It was just Applied Logic Corporation and it did not have the word "special" after it?

THE WITNESS: No.

Q Mr. Mobach, directing your attention to page 12 of the 1970 agreement and particularly paragraph D at the bottom of that page --

MR. LEBOW: Your Honor, really what I have to ask Mr. Mobach is a question of law so perhaps if your Honor will take a look at page 12 of the first agreement I am sure that Mr. Teich may object --

THE COURT: I am sure he will.

MR. TEICH: I do without looking.

THE COURT: If it is a question of law I will sustain you without looking.

MR. TEICH: I agree with your Honor.

MR. LEBOW: If I may at least direct the attention of the Court to that particular provision.

THE COURT: What provision is it?

MR. LEBOW: Page 12, the bottom paragraph labelled D.

That provision states that Applied Logic Corporation has the right to pay off the \$100,000 secured loan which is the subject of Plaintiff's complaint here, and out of the first \$100,000 that is paid off the secured loan which is at issue in the plaintiff's complaint should be eliminated and the collateral thereunder should be released.

Since I said all that now I do not need to ask



Mr. Mobach any more questions.

MR. TEICH: Now I repeat my objection.

THE COURT: He did not ask a question so there is nothing to object to. He just called my attention to a paragraph, which he has a right to do, just as you would have a right to call my attention to any other paragraph.

Are you through with the witness?

MR. LEBOW: I have no further questions of the witness.

I know I stated I have only one witness but Mr. Portnoy showed up with another witness and technically I suppose he will call him but technically I may have just one or two questions to ask.

If your Honor will permit Mr. Portnoy --

THE COURT: I will not permit anything of the sort. You are the attorney for the debtor and you are trying this case. I do not allow more than one attorney appearing for a party.

MR. LEBOW: Then, your Honor, I withdraw my statement that I only have one witness and after Mr. Mobach has testified on cross examination then I will have a brief witness.

THE COURT: Off the record.

(Discussion held off the record.)

MR. TEICH: Your Honor, my cross examination will extend far and beyond 15 minutes.

If I may suggest, if there is going to be another date, I think this might be a good time to stop right here and now.

THE COURT: All right then I will adjourn this matter to June 20th at ten o'clock.

(Witness excused.)

- - - - -

(Adjournment taken to June 20,  
1975 at 10:00 o'clock a.m.)

- - - - -



I N D E X

| <u>Witnesses</u> | <u>Direct by<br/>Mr. Teich</u> | <u>Cross by<br/>Mr. Lebow</u> | <u>Redirect</u> | <u>Recross</u> | <u>Direct by<br/>Mr. Lebow</u> |
|------------------|--------------------------------|-------------------------------|-----------------|----------------|--------------------------------|
| Michael S. Lynch | 2                              | 7                             | 12              | 31             |                                |
| Martin T. Mobach |                                |                               |                 |                | 34                             |

E X H I B I T S

| <u>Plaintiff's<br/>Ex. in Evid.</u>     | <u>D e s c r i p t i o n</u>                           | <u>Page No.</u> |
|-----------------------------------------|--------------------------------------------------------|-----------------|
| 1                                       | Note.                                                  | 4               |
| 2                                       | Security agreement.                                    | 5               |
| 3                                       | Copies of UCC filings.                                 | 5               |
| 4                                       | List showing purchases of<br>C.D.'s by the defendant.  | 24              |
| <br><u>Defendant's<br/>Ex. in Evid.</u> |                                                        |                 |
| A                                       | Credit advices.                                        | 10              |
| B                                       | Credit advice of bank as of 4/1/75.                    | 36              |
| C                                       | Credit advice representing interest.                   | 36              |
| D                                       | Agreement dated 9/2/70 and agreement<br>dated 9/15/71. | 38              |
| E                                       | March 3, 1972 letter.                                  | 44              |
| F                                       | January 18, 1972 letter.                               | 44              |

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK  
(In Bankruptcy)

In the Matter  
of

APPLIED LOGIC CORPORATION,  
Debtor,  
NEW JERSEY NATIONAL BANK,  
Plaintiff,  
APPLIED LOGIC CORPORATION,  
Defendant

No. 75-B-491

United States Court House  
Foley Square, New York, N.Y.

July 24, 1975 - 10:25 A.M.

Before:

HON. ASA S. HERZOG

Bankruptcy Judge

CONTINUED HEARING RE RECLAMATION BY  
NEW JERSEY NATIONAL BANK  
- - - - -

Appearances:

TEICH, GROH & ROBINSON, Esqs.  
Attorneys for Plaintiff  
143 E. State Street  
Trenton, New Jersey  
By: ARTHUR TEICH, Esq., of Counsel

BEATRICE R. GOTTLIEB  
Official Court Reporter  
Room 230, United States Courthouse  
Foley Square, New York, N. Y. 10007  
REctor 2-3933



BG/r

## A P P E A R A N C E S (Continued):

COUDERT BROTHERS, Esqs.  
Attorneys for Defendant  
200 Park Avenue  
New York, New York 10017  
By: MARK D. LEBOW, Esq., of Counsel

- - - - -

MR. LEBOW: Your Honor, this is the application of the New Jersey National Bank to foreclose on a loan secured by unencumbered assets.

It is also the debtor's counterclaims directing the Bank to turn over the sum of \$243,776 which was offset unilaterally, taken by the Bank within four months of the filing of the petition, and the debtor's two other claims for other seizures in that period by the Bank of \$830 and \$1,600.

MR. TEICH: I have a transcript if your Honor wants to refer to Mr. Mobach's testimony. I think this is where we are going to continue on.

THE COURT: Suppose you go ahead with the case and I will pick it up because I have my own notes, my hand-written notes.

MR. TEICH: Your Honor will recall Mr. Lynch testified on my complaint. There was cross examination of Mr. Lynch which not only covered the

complaint but also counterclaims, and then we had Mr. Mobach on the stand and completed the direct and at my suggestion your Honor postponed the matter because as indicated I could not finish my cross examination in 15 minutes.

THE COURT: All right, now I have it.

All right, Mr. Mobach is recalled.

M A R T I N   T.   M O B A C H,        recalled as a witness, having been previously duly sworn, resumed the stand and testified further as follows:

MR. TEICH: Your Honor, before I go into the testimony my attention has been directed to page 6 of the transcript in which Mr. Lynch was being examined and the answer that Mr. Lynch gave of \$11.06 -- I do not think that is particularly material at this time but it may become material at a later time. I believe the answer was \$11.06 per diem because the question posed was: What was the interest after today's date.

THE COURT: Do you agree with that change?

MR. LEBOW: Yes, your Honor.

THE COURT: All right, I will add it in.

All right, now Mr. Mobach was previously sworn and he is back on the stand. Go on with your



examination.

CROSS EXAMINATION

BY MR. TEICH:

Q Mr. Mobach, we have introduced in testimony Schedule A which is the \$100,000 note dated May 25, 1971; I believe you are familiar with it?

A Yes, I am.

Q Now, that note was supported by a security agreement and several financing statements, was it not?

A That is correct.

Q And I show you Plaintiff's Exhibit #2 which is a security agreement and I show you Plaintiff's Exhibit #3 which is a group of financing statements recorded in various jurisdictions (handing same to the witness).

Now, under the terms of those three exhibits which you have just examined certain assets were specifically earmarked as security for the \$100,000 note, is that correct?

A That is correct.

Q And the assets were enumerated in all of the instruments, and I call your attention particularly to Schedule A which says all unencumbered assets including specifically fixtures and equipment as listed in Schedule A and all inventory and after acquired

inventory or accounts receivable now or arising here-  
after, or notes receivable as listed on Exhibit 1 attached.

Now, at the time of the filing of the petition  
in this court, would you indicate for the record the  
location of the assets which are the subject matter of  
these documents which you have just examined, and  
specifically the accounts receivable, unencumbered assets  
and all the other items?

MR. LEBOW: Let me see if I understand the  
question: do you mean accounts receivable which  
existed at May 1971, where they are located?

MR. TEICH: I want to know where they were  
at the time of the filing of the petition. I want  
to know what happened to all this security.

MR. LEBOW: The accounts receivable that  
existed on May 25, 1971?

MR. TEICH: No, at the date of the filing of  
the petition.

A The accounts receivable as they were denoted as  
attached to this list were since then cashed in, so at  
the date of the filing it was non-existent.

Q How about accounts receivable which existed  
at the time of the filing of the petition; were there  
accounts receivable?



A There always are accounts receivable.

Q Would you know approximately how much in dollar value of accounts receivable existed as of the date of the filing of the petition?

A I don't know, but I can check that.

Q But there were accounts receivable?

A Yes, and I believe they have been properly listed with the filing of the petition.

Q Now, have these accounts receivable been collected by the company?

A Some may have, others may not have.

Q And the proceeds of the accounts receivable have been utilized for what purpose?

A For the operation of the company.

Q So that whatever accounts receivable actually existed as of the date of the filing of the petition to the extent that they have been collected have been utilized for the operation of the company, and there is little or no cash available; is that what you are saying?

A I did not say that. You said that.

Q Let me ask you this: is there any cash available as a result of the accounts receivable being collected?

A There has been cash available and it has been utilized to pay current bills, and as accounts are

collected from the accounts receivable that cash was put into the bank probably, one or two days and used again for payables. It is a continuous operation.

Q Which bank is that?

A The Princeton Bank & Trust.

Q Now, was there in fact any inventory in existence at the time of the filing of the petition?

A Yes, there was, and there still is.

Q There still is inventory?

A That is right.

Q And that inventory consists of what?

A Predominantly all the items that are listed there. Those items are still in inventory.

Q Inventory and equipment?

A That is correct. That is what I had reference to. As far as the inventory of notes, if you want to apply the label as inventory to various notes, to date they still have not been collected.

Q Are you referring to the notes of Thomas Truitt and Richard M. Colgate?

A May I take a look at that? (Witness examines document)

Okay, the specific notes on this list annually they pay off X number of dollars. I believe Mr. Colgate has only a small balance left to pay which is not due until



December of this year approximately. I am going just by memory.

Mr. Truitt has paid off his amount.

Messrs. Bennett, Easton, Titterweit, Mr. Gerard -- have still amounts outstanding.

Q And Mr. Oglesby?

A Mr. Oglesby paid off two years ago.

By the way, the amounts when they were paid off went through the New Jersey National Bank.

The gentlemen who have not paid are in a separate category on that list, want to set the balances off against their subrogation rights resulting from payments that the New Jersey National Bank has asked under the guaranteed bank loan.

Q How about these notes that appear on this extra page, Exhibit #1?

A Right, those were the notes I had reference to in my earlier answer. These have not been paid. Several of these companies went under.

Q I know KPA Time-Sharing Inc. which is part of KPA Nuclear is bankrupt. I happen to know about that.

What about the rest of them?

A All of the parties on this exhibit, which is Exhibit 1 attached to the note, were franchisees of

Applied Logic at one time doing the marketing, and none of them has been paid. We sustained a loss about one and three quarter million dollars on it.

Q Now, Mr. Mobach, you testified the last time you were in court when you were on the stand with reference to account #320-358-9 at the New Jersey National Bank, did you not? If I tell you that this was the number at the New Jersey National Bank of Applied Logic, would that sound familiar to you?

A If that was Applied Logic's number at that time I have documents here that I could verify it. I take it that you are correct.

Q Thank you, sir.

A You are welcome.

Q From time to time were there corporate resolutions submitted by Applied Logic to the New Jersey National Bank with reference to the bank account and those people authorized to draw from the bank account, to your knowledge?

A Resolutions to my knowledge were passed by the Board for those people who were authorized to sign for certain amounts.

Q And signature cards were submitted accordingly?

A That is correct.



MR. TEICH: I would like at this time, with permission of counsel, to introduce into evidence a group of signature cards, corporate resolutions, in connection with the same card on this particular account as far back as April 1968.

MR. LEBOW: I do not think this is material but I assume what Mr. Teich said is represented by these documents.

THE COURT: Mark them.

(Group of signature cards referred to marked in evidence as Plaintiff's Exhibit 5.)

Q Now, at any time that these resolutions were forwarded to the New Jersey National Bank, can I assume that these resolutions were the result of a meeting of the Board of Directors designating these people as signatories?

A If that is what the resolution alludes to, that is correct.

Q In any of these resolutions that were submitted to the Bank is there any indication that this particular account was a special account for any purpose?

A Whether that was denoted on here? Is that your question?

Q That is my question.



A (Witness examines Exhibit 5.) I don't think without having to go through this entire file that it was noted on here. However, since the contractual arrangement with the various parties to the refinancing agreement and to the recapitalization agreement, there was full knowledge of how the operations were controlled and supervised by the bank. This was taken up in various Board meetings and the resolutions, therefore, have to be taken in that context after that date.

Q Have you the minutes of the Board meeting which would indicate that this particular account was a special account and was specifically earmarked for the purposes which you testified to at the last hearing?

A The Board of Directors approved the refinancing agreement and subsequently the recapitalization agreement.

After the approval of the recapitalization agreement the Board consisted of five representatives of creditor parties; one outside director, and myself.

There was, therefore, a full familiarity with (a) the documents, the refinancing agreement and the recapitalization agreement, and also the restrictions that were put on the company, which to my understanding was to be looked on by these five members of the Board. I think the documents that are referred to have been submitted



in evidence.

Q Yes, they have.

A Thank you.

Q Referring again to this account #320-358-9 of the New Jersey National Bank, I believe you testified in your original testimony that this account was started some time about 1970, at the time of the first agreement; is that your recollection of your testimony?

A That is not my recollection.

Q Will you clarify my recollection, when was this account started?

A This account was or that number started prior to the refinancing agreement. Without looking at the documents, going back to the books, I have no recollection of the date because it happened at the time that I was not affiliated with Applied Logic.

Q Actually this account was in existence as one of the accounts of Applied Logic at the time these agreements were going into effect?

A That is correct. However, I would like to add something to it: when the New Jersey National Bank was appointed as custodial bank for all the financial transactions of the company I requested from the Bank a resolution as to whether we had to set up various special

accounts. The Bank waived that requirement, so whether the number stayed the same, the nature of the account substantially changed.

Q When you say you requested the bank, were you not required under the agreement to set up a special account?

A The requirement was by the agreement to do so. However, the parties were in a position to waive that necessity.

Q When you say the parties --

A And the reason that was done was for the practical operation of the company so that we did not have to go through various accounts.

The only exception to that was the payroll account, which was at the First National Bank of Princeton, and the reason for that was purely a reason of (a) law, because the New Jersey National Bank did not have a branch office at Princeton, and the law required that there is a bank in Princeton that pays the employees who receive their wages in the form of checks to have local facilities to cash their checks and (b) when subsequently the New Jersey National Bank opened a branch office in Princeton, for reason of economics because we had already printed the checks, the New Jersey National Bank



acquiesced in continuing that practice.

Q Didn't you have an office in New York?

A Who had an office in New York?

Q Didn't Applied Logic have an office in New York?

A When?

Q At any time prior to the filing of these proceedings did Applied Logic have an office in New York?

A Yes.

Q Did you have any employees in New York?

A Yes.

Q Did you have a bank account in New York?

A No.

Q How did you handle the payroll for New York employees?

A Because that is not required in New York.

Q It is a New Jersey corporation, is it not?

A It is required in New Jersey. It is for people who work in New Jersey.

Q The employees of the New York office resided in New Jersey?

A I would have to check that. On many occasions, yes, they did.

THE COURT: All right, we will take a short recess.

(Recess taken at 10:55 o'clock a.m. and hearing resumed at 11:10 o'clock a.m.)

## CROSS EXAMINATION

CONTINUED BY MR. TEICH:

Q Mr. Mobach, you have in your testimony both today and previously made a very specific point of a word called "monitor". I believe your testimony throughout when the New Jersey National Bank was referred to you specifically insisted on utilizing the word "monitor" --

THE COURT: He did not insist. He just used it.

MR. TEICH: I stand corrected, your Honor.

Q Now, where in the agreements that have been introduced into evidence can you point out to me any other provision other than this provision on page 5-A of the agreement dated September 2, 1970 which has to do with the banking at the New Jersey National Bank?

THE COURT: 5-A?

MR. TEICH: 5-A, agreement dated September 2, 1970, and if I may I will read it into evidence.

THE COURT: What page?

MR. TEICH: 5-A, sir.

THE COURT: All right.

MR. TEICH: ALC shall conduct all banking of its funds at and through the New Jersey National Bank until both notes are paid.

Q Is that the provision that you have been



testifying to?

A No.

Q Where in any other documentation do you receive support for your characterization of monitoring?

A Based on that agreement the Bank was appointed to be the custodial bank.

Q By whom?

A By the parties to the refinancing agreement.

We were also -- if you go on in the agreement -- we were also to submit various reports. Based on that agreement the Bank has always received those reports. The representative of the New Jersey National Bank was also the representative on the creditors' committee, or the advisory committee, and I think there is a paragraph pertaining to that in the same agreement.

(Counsel hands agreement to witness.)

Q What page?

A Page 8. It is understood the other bank or party to this agreement shall participate in said line of credit with the New Jersey National Bank.

Q Yes. That was the participation provision. I do not want to argue with you about the interpretation of the provision --

THE COURT: I do not think that you should. It

is his own construction of this agreement that the Bank was acting in a custodial capacity.

Is that your argument?

THE WITNESS: That is correct, your Honor.

MR. TEICH: This is the only thing I wanted your Honor --

THE COURT: I will have to read it and construe it. That is obvious.

MR. TEICH: In that case I will not go any further on this.

THE COURT: To see whether the bank was merely another depository and as such would have the normal right of setoff, or whether the money in that bank was acting on behalf of every creditor as a custodian and agent for others.

MR. TEICH: As part of the bank account.

THE COURT: That may be spelled out in the construction of the agreement. I don't know. I have not read it thoroughly but apparently that is their contention.

MR. LEBOW: If I may, your Honor. You have approached it correctly but you have to do it twice, once with the balance in the checking account and once with the \$240,000 of C.D.'s.



THE COURT: I know that.

Q When were the five members of the Board of Directors who represented creditors elected to the Board of Directors?

A December 1971.

Q December 1971?

A That is correct.

THE COURT: Was a member of this Bank on that Board?

THE WITNESS: Yes, sir.

Q After December 1971, that was Mr. Lynch?

A Mr. Lynch was duly elected on December 20, 1971.

Q And this date is subsequent to the date of the two agreements which are in evidence?

THE COURT: One is 1970.

A Yes, and the recapitalization agreement provided for the nomination of these five members at the next annual shareholders meeting which was held in December of that year, and they had to be duly elected by the shareholders.

Q At the time of the execution of these two agreements the five representatives of the creditors including Mr. Lynch were not members of the Board of Directors of Applied Logic Corporation, is that correct?

A That is correct, but they were members of the creditors' committee.

MR. TEICH: Mr. Mobach, I would appreciate it if you would answer my questions --

THE COURT: Wait a minute, counsellor. It is the practice in my court if you want a witness reprimanded, you ask me to do it.

MR. TEICH: I am sorry, your Honor. In that event, may I respectfully request --

THE COURT: Try to answer the questions precisely and do not volunteer any information.

THE WITNESS: Okay, your Honor.

MR. TEICH: Thank you, your Honor.

Q In your testimony which you supplied to this Court on June 16, 1975 the recapitalization agreement came a year and two weeks later?

A That is correct.

THE COURT: One was September 2, 1970 and the other September 15, 1971.

MR. TEICH: November 15, 1971.

THE WITNESS: No, September 15, 1971.

MR. TEICH: I am sorry.

Q Now, in your testimony -- and I refer, your Honor, to page 39, line 25 -- you testified with respect



to the account at the New Jersey National Bank as follows:

"A - It was described partially as a close-out debt account."

By whom?

A The reference is made in the recapitalization agreement to a close-out debt account based on the cash flow. That agreement directed to make payments accordingly.

Q That is the September 15, 1971 agreement?

A That is correct.

Q And you state that this agreement provided for, to use your words, a close-out debt account despite the fact that you were utilizing this account for your every-day purposes?

A Close-out debt account as described in the recapitalization agreement of September 15th is done for the purpose of rental of equipment, any payments that was to be made and hence my word "partial" -- were arrived at by a formula of the cash flow of a given, a current month, for the average of the previous month, whichever was lower. That payments could not exceed the amount that was in the close-out.

Q Payments to whom?

A Payments to the creditor-parties to that agreement, and there is a special provision for that in the agreement,

what would happen in case there was additional funds forthcoming out of the cash flow, as to how to make the payments.

Q Was there any provision in that account as to how the regular trade creditors would be paid?

A I did not hear the question.

Q Was there any provision in any of these agreements as to how trade creditors would be paid?

A There was no provision in the agreements. However,--

Q Therefore, if there was no provision in the agreements and this was the only account you had you utilized this account for the payment of trade creditors, is that correct?

A That is not correct. The trade creditors matter was discussed several times and preparatory to the recapitalization agreement. It was agreed upon by the parties to that agreement that since the company was to survive to continue to pay the trade creditors 100 cents on the dollar, and that as soon as this agreement came about negotiations with 272 creditor parties, trade accounts, and we were able to set up a situation that was payable over a period of 24 months in monthly installments without any interest.

This was thoroughly discussed with all the parties,



as I said, preparatory to signing and executing the recapitalization agreement of September 15, 1971.

Q But this account out of the New Jersey National Bank was still a depository for all funds and was utilized by Applied Logic to make all payments out of here whether or not they were to the so-called creditor parties, whether or not they were to past trade creditors, or whether or not they were to the present trade creditors, or whether or not they were to employees, is that correct? Everything came out of that account?

A To employees indirectly because the bank transferred moneys to another bank.

Q You already testified to that.

A I am answering your question.

Q Which of the two agreements provided for payment to creditor parties; was it the 1970 or 1971 agreement?

A I believe both agreements.

Q Well, the 1970 agreement was a moratorium, was it not?

A I have to go to the interest portion of the re-financing agreement. There is a proviso there, and there is a proviso in the recapitalization agreement pertaining to interest payments as well which were paid out of the New Jersey National Bank.

Q Do you recall your testimony, Mr. Mobach, with reference to the Certificates of Deposit and how the Certificates of Deposit arose?

A If you could refresh my memory on it.

Q Do you recall in the terms and provisions of one of the agreements there was a requirement that \$500,000 in working capital was to be raised? As a matter of fact it was in the recapitalization agreement of 1971 on page 5?

A I recall that.

Q Wherein it was provided that Applied Logic shall use its best efforts to raise a minimum of \$500,000 in cash as working capital, and if Applied Logic fails to raise 300,000 in capital in 60 days, any party may by written notice -- et cetera. And it gives another period up to six months for the 200,000; do you recall that provision?

A Yes, I do.

Q Do you recall that you testified in court that you indicated in fact that \$500,000 was paid --

A Was raised or paid?

Q Was raised. And you testified that when the money came in it was deposited in Certificates of Deposit with the New Jersey National Bank; do you recall you



testified to that effect?

A Yes.

Q I show you Exhibit #4 of the plaintiff which was admitted into testimony and ask you wherein that \$500,000 was deposited in Certificates, C.D.'s?

A (Witness examines exhibit.) I don't know. This is not my writing. I know one Certificate of Deposit came out of the merger of --

Q What was the date of it?

A 1974, July.

Q I am not talking about 1974; I am talking about 1972.

A That is part of the 500,000, that was part of it, because it was a consolidated statement that the 500,000 had to be raised and the working capital was defined as the difference between current assets over current liabilities, and at the time that we signed the agreement the current assets against current liabilities had a minus \$49,000 position.

Q To go back to my question --

A As moneys came in after March 28th --

Q What year?

A 1972.

Q After March 28, 1972?

A Yes.

Q The agreement of 1971 provided for \$500,000 to be raised within six months?

A Correct, and therefore March 28, 1972 was the end date because the agreement, the recapitalization agreement was signed by the last party, CIT Financial on September 28th.

Q You testified that that \$500,000 was raised and deposited in C.D.'s; when?

A I do not specifically recall.

Q But you testified that they were deposited in C.D.'s with the New Jersey National Bank?

A That is correct.

Q They did not go into the regular account first and then deposited?

A I believe that the procedure that was used, Mr. Teich, was that it went through the regular account, as you label this, -- I label it as the custodial account -- and then from there it was put into C.D.'s.

Q At whose direction?

A I think to the best of my recollection that this was an agreement that I reached with Mr. Lynch because I asked at that time whether the moneys that were to be raised had to be deposited at the New Jersey National Bank,



and this was a question pertinent to the interpretation of both the refinancing agreement of 1970 and the recapitalization agreement of 1971.

Q Then you had on behalf of Applied Logic an agreement with Mr. Lynch that at a certain particular time you would request that C.D.'s be purchased out of the account at the New Jersey National Bank?

A The procedure that was followed --

Q Was it automatic?

A It was as far as I am concerned a matter that was touched upon between the New Jersey National Bank and the company; some roll-overs had been automatic, others were not roll-overs. I believe the procedure was at the bank that when a C.D. matured to put the money in the account and then immediately credit the account and immediately debit the account with new C.D.'s.

Q When you get to that last step, when you say immediately debit the account with the new C.D., at whose direction was this account debited with the new C.D.; was it your direction or somebody from ALC?

A The paper work usually followed the steps taken by the bank so I believe it was at the direction of the bank. It certainly was for quite some time at the direction of the bank. It was also at the direction of the bank as to

what C.D.'s --

Q How would the bank know whether or not you needed the money?

A How would the bank know? Would you repeat the question, please?

THE COURT: How would the bank know you needed the money?

Q That you needed the money in the bank account or could put it into C.D.'s. Was the bank at your place of business every day in the week to determine how much money you would need for your cash flow?

A No, but the bank participated in the Board of Directors by having a member of the Board.

Q How frequently did the Board of Directors meet?

A About once a month.

Q Did the Board of Directors ever make a determination to buy C.D.'s?

A Offhand, I could not answer that question. They were apprised of what happened.

Q Isn't it true that it is your testimony on page 44, -- and I refer the Court to page 44, lines 16 and 17 -- where you testified in response to a question by counsel:

"Q - And what did you do with the money?



(Referring to the 500,000 raised by the recapitalization agreement.) -- and you said in answer to that question:

"A - When the money came in we deposited it at all possible in Certificates of Deposit with the New National Bank."

Is that true?

A That is true.

Q But you just testified that you deposited it in the regular account and then purchased C.D.'s as the need arose?

A Since the procedural manner in which the bank handled this was to first credit such amount to our account and then debit it for C.D.'s, that technically is what happened.

I still stand by my testimony, however, that wherever possible it was deposited in C.D.'s.

Q If your testimony were correct, wouldn't it not be true there would be \$500,000 in C.D.'s prior to the time of the offset by the Bank?

A Not if you record whenever possible.

Q Well, what happened to the \$500,000?

A The \$500,000 had to be raised under the recapitalization agreement to make sure that the company could meet

its obligations so that the creditor parties could get paid in the long run more than if the company had been liquidated in 1970 or 1971.

MR. LEBOW: I think the question as to the 500,000 gets down to \$245,000.

THE WITNESS: Actually it got down to \$300,000 but the bank authorities took 60,000 --

Q How did it get down to 240,000 or 300,000?

A By the request to the bank putting a C.D. upon maturity into the account and leaving it there for working capital purposes because the accounts receivable were coming in slower and we had to meet accounts payable in order to keep normal operations going.

Q Now, in addition to the C.D.'s that were purchased out of this account at the New Jersey National Bank, isn't it true other types of securities were purchased and I will refer to what is referred to as commercial paper?

A I don't know.

Q If I can refresh your recollection, do you recall discussing with Mr. Lynch at any time in the purchase of C.D.'s out of this account that you purchased commercial paper because commercial paper was bringing a higher rate of interest?



A That is correct.

Q So that from time to time instead of purchasing Certificates of Deposit you also purchased commercial paper out of this account, is that correct?

A Only if the Bank would allow us to do so.

Q And when you say "only if the Bank would allow us to do so", did the Bank ever refuse to do so?

A Yes, sir.

Q When?

A Several occasions, I believe in 1974 as was reported to me by my financial officer.

Q Under what circumstances?

A I don't know.

Q He reported to you what?

A That the Bank had unilaterally decided to put the money in a given C.D. rather than go for a higher interest rate.

I do recall that I have asked Mr. Lynch a couple of times why this happened and he indicated that some of the rates at the New Jersey National Bank were lower but that was the procedure he elected to take.

Q And was that at the time you wanted to transfer funds to another bank, was it not?

A I also asked -- I asked whether to transfer it to

another bank to increase interest where possible, and the reason I asked that was because we had to make monthly interest payments of the debt, and the more interest we would get into that account in order to pay the interest that was due the creditor parties to the recapitalization agreement, the better it would be for the operational statement of the company.

Q Now, you said that during 1974 Mr. Lynch refused to transfer certain funds from C.D.'s to your bank or from C.D.'s to other accounts; what was your testimony, can you clarify that?

A From C.D.'s to bank accounts.

Q When was that in 1974?

A I believe in June of 1974.

Q This was about the time, was it not, that there was some serious discussion between Applied Logic and the creditors' committee, the so-called creditors' committee, with respect to Applied Logic's difficulties?

A I don't think there was a creditors' committee at the time.

Q With the Board of Directors?

A With the Board of Directors, yes.

Q Was this in fact after the time that the New Jersey National Bank accelerated its loan?



A It was before that time.

Q How long before?

A It could be a week, it could be more.

Q But it was during the time that you were discussing the problems that Applied Logic had?

A Indeed, any problems that Applied Logic had we discussed with the Board of Directors.

Q And the Board met about once a month?

A About that frequency.

Q This \$60,000 which is presently earmarked at the New Jersey National Bank in connection with the problem involving the sales tax with the State of New Jersey, you recall that situation, do you not?

A Yes.

Q And you recall you testified to that at the last hearing?

A Yes.

Q This occurred in the middle of 1974, did it not?

A That is correct. I believe earlier than that. The \$60,000 before the middle of 1974 was part of a total of a \$100,000 C.D. that was earmarked for it.

Q I did not hear that.

A The \$60,000 set aside for tax authorities of the State of New Jersey was part of a \$100,000 C.D. that was

earmarked for this purpose.

Q How did it come to pass that this C.D. was specifically earmarked for the purposes indicated? Who contacted whom with reference thereto?

A The company had the choice between an extreme amount for a bond to be put up, and it was discussed at a Board meeting with Mr. Lynch, and subsequently I discussed it on a personal basis with Mr. Lynch as our bank contact, whether there would be a way to handle this that would cost less money for the company. This was the way that the tax authorities would permit and Mr. Lynch allowed us to do it.

Q As a result of your discussion with Mr. Lynch a \$100,000 C.D. was set aside for this specific purpose?

A Really 60,000 of it but it was part of a \$100,000 C.D.

Q Why did it not at that time been broken down?

A You will have to ask Mr. Lynch that question.

Q And isn't it true that in order to get the higher rate of interest, that the \$100,000 C.D. was the magic figure? That if it was under \$100,000 the interest rate would be substantially less?

A I don't know if that was the reason for it at the time.

Q But you were satisfied to have that \$100,000 C.D. set aside for the sales tax problem, is that correct?



1 A The State was satisfied and, therefore, I was  
2 satisfied, that the matter was handled in a proper manner.

3 Q And Mr. Lynch agreed?

4 A This is correct.

5 Q When you refer to a so-called creditors' com-  
6 mittee, Mr. Mobach, how did this so-called creditors'  
7 committee come about?

8 MR. LEBOW: What period of time are you  
9 talking about?

10 MR. TEICH: In the first instance.

11 Q This goes back to prior to the 1970 agreement,  
12 isn't that correct, Mr. Mobach?

13 A That is correct.

14 Q How did this so-called creditors' committee  
15 come about?

16 A To the best of my recollection, by the parties that  
17 finally signed the refinancing agreement --

18 Q That is not what I am asking. Who called the  
19 first meeting?

20 A The first meeting was called by Applied Logic with  
21 all of these parties, all eleven parties.

22 Q Applied Logic sent out a letter or notice  
23 saying we would like to have a meeting with all of you,  
24 is that correct?

A I don't think so.

Q How did it happen?

A I think I had contacted several parties personally and we all agreed that it would be best to have a joint meeting between the equipment lessors; then we had a joint meeting with the banks, and subsequently we had a meeting with the equipment lessors, debt, and the four banks and if my memory serves me right around July of 1970.

Q This was prior to the 1970 agreement?

A That is correct.

Q Was there any formalization insofar as the so-called creditors' committee, did they appoint a chairman?

A Yes, I believe Mr. Lang was appointed chairman of that committee.

Q Now, which committee are you talking about, are you talking about the equipment committee, the bank committee or the joint committees?

A There were eleven parties all told to the agreement. The parties among themselves elected to establish a committee that would meet with the company and company management once a month to review the financial status of the company.

Q And did they meet once a month?



A Yes, once a month I made a presentation to them. They asked questions, they got the reports and they got substantially all the financial reports that normally also went to the Board of Directors.

Q So that prior to the 1970 agreement none of these members of the so-called creditors' committee was on the Board of Directors?

A That is correct, with the exception of -- I am trying to refresh my memory -- you asked a question, members of the committee on the Board of Directors, and not members to the refinancing.

Q Look at the so-called creditors' committee --

A Mr. Colgate who happens to be the chief executive officer of Applied Logic was also a creditor-party. I wanted to make sure I answered that correctly.

Q At that time?

A At that time, yes.

Q I think he continued to be a creditor party --

A He continued to be a creditor party and he continued for the duration of the financing agreement as Chairman of the Board. He stepped down in December of 1971 both as a director as well as Chairman of the Board.

MR. TEICH: May I deviate for a moment, your Honor. On page 49, and I call this to Mr.



Lebow's attention, line 11 I would like to amend that to read, if your Honor will permit, that Mr. Lebow asked the question and not Mr. Lynch.

THE COURT: Where is that?

MR. TEICH: Page 49, line 11.

THE COURT: Do you agree to that, Mr. Lebow?

MR. LEBOW: Yes, your Honor.

THE COURT: Off the record.

(Discussion held off the record.)

CROSS EXAMINATION

CONTINUED BY MR. TEICH:

Q As a result of these meetings held from time to time with representatives of the various creditors how did it evolve, Mr. Mobach, that five people were designated to go on the Board of Directors?

MR. LEBOW: Your Honor, I have been listening to Mr. Teich and wondering whether all this is material. I have no objection to it.

THE COURT: I have been wondering a little too whether you are making too big a record for me to study. I don't think it is important how five out of seven -- unless you feel it is important, I will allow you to proceed.

MR. TEICH: I don't think there is a great deal



of importance.

THE COURT: My theory is on examinations that I want to get at the truth and I allow a great deal of leeway but if you feel it is not important and it is cluttering up the record for me to study --

MR. TEICH: I have no intention of cluttering up the record. I will take your Honor's remark under advisement and will guide myself accordingly.

THE COURT: Off the record.

(Discussion held off the record.)

CROSS EXAMINATION

CONTINUED BY MR. TEICH:

Q Mr. Mobach, you testified with respect to a request by Mr. Lynch in connection with the ageing of accounts receivable, do you recall that, is that correct?

THE COURT: Do you recall?

THE WITNESS: Yes.

Q Now, did Mr. Lynch at one time ask you to age the accounts receivable?

A To age the accounts receivable?

Q And submit them to him?

A The accounts receivable automatically age by themselves, and every month there is a different ageing.

THE COURT: What he means is sometimes you age

them according to your saying this is five years old, or this is four years old --

THE WITNESS: No, sir. Our ageing, your Honor, was always in the manner which would reflect what the current was zero to 30 days, 30 to 60 days, 60 to 90 days and over 120 days was a category where everything was written together and this was up-dated every month.

Q And Mr. Lynch at one time asked you to supply him with that?

A These went out every month to my knowledge to the New Jersey National Bank.

Q And this was in accordance with the conditions of the agreement, is that correct?

A Correct, and the control function at the bank.

Q Now, you testified at page 24, lines 4-10 in response to the question, and the Court asked this: "What do you mean by monitoring? Do you mean if you wanted to draw a check you had to get it initialled by somebody?"

THE WITNESS: This would have been the normal procedure. However I was able to discuss with Mr. Lynch that we would dispense with that and that the company would write its checks provided that we would give them a copy of the accounts



receivable ageing and also the accounts payable ageing."

As a matter of fact that was provided for in the agreement, wasn't it?

A Correct. Mr. Lynch was executing it.

Q You testified at page 54, line 24, that the check which was issued to one Webster-Todd -- you said "The one that comes to mind at the moment is a check to Webster-Todd." -- that was in response to a question about a particular check. When was that?

A The question came up in December of 1973, it came up in June of 1974, and then again in December of 1974.

Q What was the question?

A The question was who the \$12,500 check, which was the amount, was for, and who Mr. Webster-Todd was.

Q What was the answer?

A The answer was that Mr. Webster-Todd is the owner of the land to which Applied Logic had an option to purchase and a 99-year lease to use.

Q Who called you with reference to it?

A Mr. Lynch himself.

Q Why did he call you on three separate occasions if you explained it to him on the first occasion?

A I imagine by his reaction which is the most recent

one in December -- oh yes -- I know -- if you will, this is a memory jogger --

Q In December 1974?

A December 1974, it was his reaction at that time, as I recollect.

Q In December of 1974, and this was in or about the same time that the so-called setoff was exercised, roughly?

A I think it was before.

Q But you had already received a notification of the acceleration of the loan?

A That is correct.

MR. TEICH: If your Honor please, in connection with your suggestion that I find a convenient place to stop, I would like to stop now because I have a whole new line of questions that I would like to go into.

THE COURT: I will give you the first available date.

Off the record.

(Discussion held off the record.)

THE COURT: September 19th starting at ten o'clock and I will hold the morning.

(Witness excused.)

-----  
(Adjournment taken to September 19, 1975 at 10:00 a.m.)



I N D E XWitnessCross by Mr. Teich

Martin T. Mobach

62

E X H I B I T SPlaintiff's  
Ex. in Evid.D e s c r i p t i o nPage No.

5

Group of signature cards.

68

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK  
(In Bankruptcy)

In the Matter  
of

APPLIED LOGIC CORPORATION,

Debtor.

No. 75 B 491

United States Court House  
Foley Square, New York, N.Y.

June 23, 1976  
8:30 o'clock a.m.

ADJOURNED XI-4 HEARING; ADJOURNED HEARING  
ON CONFIRMATION; ADJOURNED OBJECTIONS TO  
CLAIMS; ADJOURNED SUMMONS AND COMPLAINT  
(NEW JERSEY NATIONAL BANK); ADJOURNED  
SUMMONS AND COMPLAINT (CITY FINANCIAL)

Before:

HON. ROY BABITT,  
Bankruptcy Judge

BARRY W. RAYVID  
Official Court Reporter  
U.S. Courthouse (R. 230)  
Foley Square, New York, N.Y. 10007



## A P P E A R A N C E S :

COUDERT BROTHERS  
Attorneys for the Debtor  
200 Park Avenue  
New York, New York

BY: MARK D. LEBOW, ESQ., Of Counsel

LEON ROBINSON, ESQ.  
Attorney for New Jersey National Bank  
143 East State Street  
Trenton, New Jersey

- - - - -

P R O C E E D I N G S

THE COURT: Let me see what this is  
about here. I have an amended answer, to-  
gether with counterclaims, right?

MR. LEBOW: Yes, sir.

THE COURT: In regard of the Jersey  
Bank. Now, how does this arise? You made  
an objection to claim?

MR. LEBOW: No, sir.

THE COURT: Let's look at your  
objections to claims first. Are they all  
disposed of?

MR. LEBOW: All of them are disposed

of except for one.

THE COURT: Which one, Fidelity Management & Research?

MR. LEBOW: That is disposed of, I believe.

THE COURT: Lang is the one?

MR. LEBOW: That is the one.

THE COURT: Number 35?

MR. LEBOW: That is correct.

THE COURT: Fidelity Management & Research is disposed of. Was an order entered?

MR. LEBOW: We have reached a stipulation that is contingent upon confirmation.

THE COURT: The City of New York is done; CIT Financial is also resolved?

MR. LEBOW: That is in the same category as Fidelity. If we confirm, that will be disposed of, also. That has been signed but we haven't submitted it. It should be presented simultaneous'ly with confirmation.

THE COURT: I don't know what this is (indicating). This was left here by mis-



take, these pieces of paper.

MR. LEBOW: Sir, these are Judge Herzog's notes and the testimony of the trial that previously took place.

THE COURT: What is this, this letter? Do you know anything about that or has that been disposed of?

MR. LEBOW: This appears to be a letter objecting to a reduction.

THE COURT: It has been disposed of?

MR. LEBOW: Yes, sir.

THE COURT: Now, I take it all these other papers that I have in front of me relate to the bank, the dispute with the bank.

Tell me a little bit about what happened here. I guess it was all begun by a suit - - Fidelity Management has also got a complaint here?

MR. LEBOW: That particular reclamation is encompassed in the stipulation which will be - -

THE COURT: I can keep Fidelity

Management and CIT separate?

MR. LEBOW: Yes, sir.

THE COURT: You are just interested in the New Jersey Bank, right?

MR. LEBOW: That is correct.

THE COURT: This letter you wrote to my colleague last June, does that have anything to do with us today? How about all these papers? Why don't you go through all these papers and tell me what belongs to what.

This I know is Fidelity (indicating); this is apparently Fidelity, CIT - - why don't you go through all this and tell me what is for today's litigation and what I don't need and what I can send back to the file. Just let me know.

(At this time, a short recess was taken and all parties subsequently returned.)

MR. LEBOW: Mr. Robinson isn't here. May I suggest you might want to read New Jersey Bank's complaint and take a look at our amended answer and counterclaims - - here is Mr. Robinson.



Your Honor also has our memorandum of law submitted to Judge Herzog before upon which we will rest in these proceedings.

THE COURT: This was an answer or the original counterclaim?

MR. ROBINSON: The answer to the amended counterclaim has been mailed in to your office with a copy to Mr. Lebow's office. Copies are available if we need them for this morning, but they were mailed.

THE COURT: Incidentally, this is a motion to hold any recovery here in escrow?

MR. LEBOW: That is a motion by the creditors committee which I think Your Honor can dispose of.

THE COURT: It would be held, in any event, for confirmation.

MR. LEBOW: Yes.

THE COURT: I am going to mark this withdrawn. I don't think it has anything to do with this litigation.

If there is any recovery it has to be held for furtherance of the debtor's arrangement, okay. In the meantime, let me

3 give you an adjourned date for the other  
4 aspects of this, Mr. Lebow.

5 MR. LEBOW: Mr. Portnoy, the chair-  
6 man of the creditors committee, is not able  
7 to be here because he is in court on a Chap-  
8 ter XII in Boston. He suggested the 30th.

9 THE COURT: That's nonsense. This  
10 case won't be decided by June 30th or any-  
11 where like it.

12 August 3rd at ten-thirty is the Chap-  
13 ter XI aspects, the open objections to claims  
14 and the dispute with CIT. The debtor will  
15 be directed to file schedule for confirmation  
16 and applications for allowance and make all  
17 deposits necessary for confirmation on or  
18 before August 2nd. Now, getting back to this,  
19 I understand that part of this had been tried  
20 by my colleague, correct?

21 MR. ROBINSON: That is what I gather,  
22 Your Honor. Apparently there was two days  
23 of testimony.

24 THE COURT: What do you fellows  
25 think? Mr. Mobach was one witness and Mr.  
Teach (phonetics), the other?



3 MR. ROBINSON: No, Mr. Lynch from  
4 the bank was the other witness.

5 THE COURT: Yes, Mr. Lynch did tes-  
6 tify.

7 MR. ROBINSON: From my perusal of the  
8 transcript apparently Mr. Lynch testified in  
9 regard to the basics on the complaint. I  
10 understand there was no question in regard  
11 to those particular matters.

12 THE COURT: Do you want to stipulate  
13 for me to take this record or are there cred-  
14 ibility choices?

15 MR. LEBOW: Your Honor, I think we  
16 may very well be able to do that, but let me  
17 focus the problem so you aren't misled.  
18 Basically we have now no disagreement with  
19 the material allegations contained in the  
20 complaint.

21 THE COURT: The whole dispute is  
22 the counterclaims?

23 MR. LEBOW: That is correct.

24 THE COURT: You are not challenging  
25 the validity of their lien?

MR. LEBOW: That is correct. How-



ever, we do say they applied it in the wrong way, but that will come out in the issues raised on the counter claims because there was a certain collateralized loan and a certain uncollateralized loan and we said this should reduce certain indebtednesses. We don't have any question about the validity of the lien.

THE COURT: If you did not have counterclaims, they would be entitled to summary judgment?

MR. LEBOW: Yes, but how the relief would be structured is something that is at issue. However, you are correct that they would be entitled to have established their lien in the amount amended in the complaint. Now, the issue for you to decide in connection with the counterclaims principally concerns an account that was maintained at New Jersey National Bank and at various times prior to and after these proceedings amounts were set off by the New Jersey National Bank out of this account and out of things that have flowed from this account such as certificates of deposit.



3 It is the debtor's allegation, and  
4 we are prepared to prove that today, this is  
5 in the nature of a custodial trust account.  
6 It is certainly not, it is our contention,  
7 a general business account subject to setoff.

8 THE COURT: In other words, a consent-  
9 ual escrow account?

10 MR. LEBOW: That is correct.

11 THE COURT: Which, therefore, limits  
12 - - it was limited only to use by the consen-  
13 sus of the parties?

14 MR. LEBOW: That is a question of  
15 fact which you will have to decide. However,  
16 I do not believe that there has been any tes-  
17 timony in the transcript to date in which  
18 somebody has said "X" and somebody said  
19 minus "X."

20 THE COURT: What did Mr. Mobach  
21 testify to? You have about eighty pages.

22 MR. LEBOW: I don't know. Perhaps  
23 you would like to read through the transcript?  
24 Both Mr. Lynch and Mr. Mobach are here if  
25 you have any questions.

THE COURT: No. If it is felt that

1 I can use it, and I do not invite credibili-  
2 ty choices which are dependent upon the  
3 demeanor of Mr. Mobach or Mr. Lynch, I will  
4 take the record and go on from there. If it  
5 is a question of my having to observe the  
6 witnesses and appraise their manner of tes-  
7 timony, I should prefer to start over.

8 I don't like to read a cold, dead  
9 record and thereby evaluate a witness'  
10 integrity.

11  
12 MR. ROBINSON: There is one problem  
13 with that. The cross-examination of Mr.  
14 Mobach was in the process, I think, when  
15 the last adjournment took place. The cross-  
16 examination was not completed.

17 The testimony of Mr. Lynch primarily  
18 dealt with proving the allegations of the  
19 petition.

20 THE COURT: Which are not even in  
21 dispute now?

22 MR. ROBINSON: That is correct, Your  
23 Honor. I must say in the cross-examination  
24 of Mr. Lebow I gather - - and obviously from  
25 reading it he did get into these problems - -



3 but, that was only on the cross-examination  
4 of Mr. Lynch. So, Mr. Lynch had not had the  
5 opportunity or we haven't had the opportunity  
6 as yet to get into any rebuttal of what is  
7 being presented in support of the counter-  
8 claims. I will put it that way.

9 And, may I also indicate that Mr.  
10 Teach's cross-examination of Mr. Mobach is  
11 not complete.

12 THE COURT: We continue on that.

13 MR. LEBOW: It seems to me like the  
14 best thing, if I may make a suggestion, is  
15 to assume that the plaintiff does not object  
16 to the establishment of the lien mentioned  
17 in the complaint.

18 THE COURT: You mean the defendant  
19 does not?

20 MR. LEBOW: The debtor-defendant  
21 does not object to the fact that - -

22 THE COURT: We really don't need  
23 Mr. Lynch any more.

24 MR. LEBOW: With respect to proving  
25 the amount of the lien in the amount set  
forth in the complaint, we don't need him

for that and Your Honor can assume that we can't consent that the amount listed in the complaint is a lien.

How relief can be structured you still have to decide and it appears we should probably start all over again on the counter-claims and I think we should probably start on the debtor-defendant's case, unless Mr. Robinson would like to make some other suggestions.

MR. ROBINSON: No, I have no other suggestion.

THE COURT: I take it this matter is not susceptible of compromise?

MR. ROBINSON: I really don't know.

THE COURT: I would like, frankly, not to further inhibit or delay the debtor's confirmation. I mean, I am not interested in compromising to avoid what I have to do. If I don't try your case, I will try someone else's.

I take it confirmation depends on the resolution of this dispute?

MR. LEBOW: In the present posture



of the case, yes.

THE COURT: In other words, if you prevail, you are looking for the money here to help you put through the plan?

MR. LEBOW: Exactly.

THE COURT: I can't promise you a quick decision on this, my friend, that I tell you now. There are other cases that are equally as important to me that I have lived with for some years and I have to, at least, if not give them priority, recognize they might be closer to fruition than this and closer without the necessity for complex litigation and writing of opinions.

Under the scheme of the act I like to get cases rehabilitated as quickly as I can. But, if this can be adjusted and it will speed the confirmation practice, I am amenable just for that purpose.

I don't either way whether I try you or someone else or eighteen other people. Have you explored this at all, you fellows?

MR. LEBOW: Your Honor, at one point we adjourned the hearing before Judge Herzog.

We did have a settlement in principle.

THE COURT: What happened?

MR. LEBOW: That settlement in principle lasted for a considerable period of time. However, I would say it was ended when the last setoff on April 1, 1976 was taken by New Jersey National Bank and there has been no further discussions.

I don't know whether it is possible to resume those discussions or not.

THE COURT: I certainly don't.

MR. ROBINSON: If Your Honor please, in reference to that, again, I wasn't a participant in those discussions, but it is my understanding, as Mr. Lebow indicated, that it apparently came to an impass because of what he referred to as "the last setoff."

I might put it that was in the approximate amount of - -

THE COURT: Thirty-five thousand dollars?

MR. ROBINSON: No, about twenty-six thousand dollars.

THE COURT: Let me ask you this. It



is obvious this is not going to take two days with one witness.

MR. LEBOW: It will certainly take one day.

THE COURT: One day is one day. Do you think there would be any purpose for you fellows to talk for a half hour and maybe I can read the transcript in the meantime? What do you think, Mr. Robinson? Do you have authority from Mr. Teach?

MR. ROBINSON: If I don't, I will assume it, Your Honor, and say yes, we do have authority.

THE COURT: I would like to get him out of here. I think Mr. Mobach may be more agonized sitting in the court for the next four or five months.

I can read the transcript in the meantime; I could look at Judge Herzog's bench notes in the meantime.

MR. LEBOW: Mr. Lynch is the executive vice-president of the bank. I think he has some authority.

THE COURT: All right. Do you think,

Mr. Lynch, it's worth exploring? I have no other things on my calendar today. I have given you today all day and I have also given you all day tomorrow, and if need be, I can give you a piece of Friday.

I don't think killing an hour now for me to go into chambers and look at the minutes or for you people to explore this necessarily would be destructive, so why don't we do that.

(At this time, a short recess was taken and all parties subsequently returned.)

THE COURT: I have gone through the transcript and I have decided we will start with Mr. Mobach. There is no need to go into Mr. Lynch's testimony.

MR. LEBOW: While Mr. Moback is taking the stand, I would like to repeat for the record insofar as the complaint of the bank is concerned in which the bank sues to take possession of unencumbered assets to satisfy the balance of approximately fifty-six thousand dollars remaining due on the loan mentioned in the complaint the debtor concedes the validity of the lien on the unencumbered



assets. The debtor concedes that the amounts mentioned due in the complaint is, in fact, due.

However, the debtor claims that no amount should be paid to the bank on their secured loan because the bank in December 1974 applied approximately two hundred forty-four thousand dollars of the debtor's funds. That is the subject of some of the counterclaims here.

Since the bank had a lien according to the documents annexed to the complaint on the debtor's unencumbered assets, it's the debtor's contention any amount should be applied to this secured loan. Moreover, the 1972 agreement which is on Your Honor's bench between the bank and the debtor specifically provides first monies paid by the debtor should be applied to their secured loan and the collateral thereupon.

That is the only thing you have to decide with respect to the issues raised in the complaint itself. I think we shall now turn to the counterclaims.

3 MR. ROBINSON: Your Honor, I don't  
4 think it's necessary for me to make any  
5 reply to that. Our position is naturally  
6 just the reverse.

7 I think that the agreement speaks  
8 for itself in regard to how the funds were  
9 to be applied and I specifically refer to the  
10 wording that Mr. Lebow used when he said  
11 manner of payments made to the bank.

12 I think that we have to go through  
13 and see whether or not actually when the  
14 setoffs that were made by the bank back in  
15 September of that particular year - - whether  
16 they constituted payments, whether they be  
17 under the agreement or whatever might be sug-  
18 gested.

19 And, the bank under was regularly  
20 a garden variety loan has a right to apply  
21 where it wishes to apply unless there is some-  
22 thing - -

23 THE COURT: Unless the funds have  
24 been consensually segregated?

25 MR. ROBINSON: That is correct.

THE COURT: That they were not meant  
to be utilized in the traditional setoff



fashion?

MR. ROBINSON: That is correct.

THE COURT: I think that is basically at the heart of the issues.

MR. ROBINSON: That is correct. I think that is exactly the question that we are involved with here today.

THE COURT: Let's see. Now, since there are issues still raised by the complaint - - correct, Mr. Lebow?

MR. LEBOW: The only issue raised is whether the two hundred forty-four thousand dollars which the bank set off in December satisfies the amount demanded in the complaint.

THE COURT: I think they would have the burden of initially going forward, or is that purely a legal question?

MR. LEBOW: I think that is purely a legal question.

THE COURT: Then we are finished with the complaint?

MR. LEBOW: Yes.

THE COURT: Now, you have the burden



of going forward on the counterclaims.

MR. LEBOW: That is correct.

MARTIN T. MOBACH, having been duly sworn by Honorable Roy Babitt, was examined and testified as follows:

THE COURT: Please give your full name and home address to the reporter.

THE WITNESS: Martin T. Mobach, 97 Hardy Drive, Princeton, New Jersey.

THE COURT: I take it I will wait for your memorandum of law for some other time after the case is tried?

MR. ROBINSON: Yes, Your Honor.

THE COURT: We will have a post-trial brief, I suppose?

MR. ROBINSON: Yes.

THE COURT: We will have it combined that way.

MR. LEBOW: At the time before Judge Herzog I did give Mr. Robinson's predecessor a copy of our memorandum.

THE COURT: Yes.



## DIRECT-EXAMINATION BY MR. LEBOW:

3           Q       Mr. Mobach, I presume you are the  
4 president of Applied Logic Corporation, the debt-  
5 or herein?

6           A       That is correct.

7           Q       On March 27th, 1975 Applied Logic  
8 Corporation filed a petition for an arrangement  
9 pursuant to Chapter XI, Section 322 of the Bank-  
10 ruptcy Act?

11          A       It did.

12          Q       I further presume that an order  
13 finding the debtor's plan to be accepted, closing  
14 the first meeting of creditors and appointing  
15 a distributor was signed on February 26th, 1976?

16          A       I believe that is correct.

17               THE COURT: I will take judicial  
18 notice of that, a record made in the course  
19 of business of this Court.

20          Q       Mr. Mobach, directing your attention  
21 to September 2nd, 1970, at that time did the  
22 debtor enter into an agreement with Chase Manhat-  
23 tan Bank, First National City Bank, First National  
24 Bank of Princeton and the plaintiff, New Jersey  
25 National Bank?



Was there an agreement entered into as of that date?

A There was an agreement entered into. There were more parties.

Q As well as the parties I mentioned?

A Yes.

Q Mr. Mobach, I show you a document dated September 2, 1970 and I show you an agreement between the same parties which I previously made reference to, dated September 15th, 1971 and I ask you whether these are the agreements entered into by the debtor and New Jersey National Bank as well as others?

THE COURT: Off the record.

(Discussion off the record.)

THE COURT: The plaintiff's exhibits before my colleague were Exhibit "1" in evidence - - it was a note. Is this the note(indicating)?

MR. ROBINSON: No, this is the note (indicating).

THE COURT: Exhibit "2" was the security agreement; Exhibit "3" were the copies of the UCC filings; Exhibit "4" was



3 a list showing purchases of CD's by the  
4 defendant.

5 Those were the exhibits that Miss  
6 Gottlieb who took the hearing before my  
7 now retired colleague.

8 The defendant's exhibits, which were  
9 taken into evidence, Mr. Lebow, were credit  
10 advices as Exhibit "A", which is what I have  
11 here; credit advice as of 4/1/75 which I  
12 have here; a credit advice representing in-  
13 interest April 4, 1975, which I have here;  
14 the agreement dated 9/2/70 and 9/15/71 were  
15 carried as one exhibit in evidence, as Exhi-  
16 bit "D."

17 MR. LEBOW: That's what Mr. Mobach  
18 has now.

19 THE COURT: Mark that in evidence.

20 (At this time, the said  
21 referred to document was  
22 so marked as Defendant's  
23 Exhibit "D" in evidence.)

24 THE COURT: Exhibit "E" was a March  
25 3, 1972 letter; Exhibit "F" was a January  
18, 1972 letter.

I am looking at Page 58 of the trans-

cript of the trial before my colleague last June. Do you have it?

MR. LEBOW: I see that, Judge, but I do not find any reference in the transcript - -

THE COURT: She tells you at Page 44 of the hearing before Judge Herzog. Mr. Teach had no objection to the January 18th letter. It was marked Exhibit "M". And, Mr. Teach had no objection, on Page 43, to the March 3, 1972 letter and that was marked Exhibit "E." That's Page 44 of Mr. Mobach's direct-examination.

MR. LEBOW: I see that but, I am at a loss to find them.

THE COURT: You went through all the papers this morning?

MR. LEBOW: I may have made a mistake, then?

THE COURT: On the papers I sent back?

MR. LEBOW: Yes.

THE COURT: And, finally, a group of signature cards were Plaintiff's Exhibit



"5."

MR. ROBINSON: I think this file was marked by Mrs. Gottlieb (indicating.)

THE COURT: Exhibit "5?"

MR. ROBINSON: Yes.

THE COURT: Signature cards?

MR. ROBINSON: And corporate resolutions.

THE COURT: I have all the plaintiff's exhibits.

MR. ROBINSON: Yes..

MR. LEBOW: I will have to obtain duplicate copies of the last two exhibits.

THE COURT: Pending those you can mark the next exhibit by the defendant as "G" and you will have to supply me with "E" and "F," the January 3, 1972 letter and January 8, 1972 letter, Pages 43 and 44 of the transcript if you want to know from whom.

Okay, proceed.

Q Mr. Mobach, directing your attention to September 2, 1970, what was the financial condition of the debtor at that time?

A The debtor was insolvent.

Q What, if anything, did these two agreements accomplish with respect to the indebtedness of the debtor to the parties to that agreement?

A The first agreement got us a moratorium on payments for a period of a year as well as a possibility to raise some capital to keep the company going.

The second agreement reduced the debt by about three million dollars in exchange for equity in the company as well as a requirement to raise additional funds to operate the company.

Q Did those agreements require the establishment of a creditors committee?

A I believe so. If it's not specifically stipulated in the agreement there was a creditors committee which we referred to.

MR. ROBINSON: If Your Honor please, I would like to respectfully have Mr. Mobach answer the question rather than volunteer additional information.

THE COURT: Just answer the question. Repeat the question.



Q Was a creditors committee established at this time?

A There was a creditors committee established.

Q Was there a representative from New Jersey National Bank on that creditors committee?

A There was.

Q Who was that individual?

A Mr. Michael Lynch.

Q Do you know what position he held at the bank?

A Would you repeat the question?

Q Do you know what position he held at the bank?

A Executive vice-president - - at that time he was vice-president, I believe.

Q Now, did Mr. Lynch assume a seat on the board of directors of Applied Logic Corporation?

A He did pursuant to the second agreement.

Q He was a member of the board of directors of Applied Logic Corporation for what period?

3           A           From December - - on or about Decem-  
ber 20, 1971 until July 2nd of 1974.

5           Q           Now, prior to September 2, 1970,  
did the debtor maintain an account at Chase Man-  
hattan Bank?

7           A           Yes, it did.

9           Q           Did it maintain an account at First  
National City Bank?

10          A           Yes, it did.

11          Q           Did it maintain an account at First  
12          National Bank of Princeton?

13          A           Two accounts.

14          Q           It maintained two accounts there.  
15          And, did it maintain an account at New Jersey  
16          National Bank?

17          A           Yes.

18          Q           Prior to September 2, 1970, for  
19          what transactions was the account used at New  
20          Jersey National Bank?

21          A           It was used primarily for financing  
22          of equipment that was purchased from the various  
23          equipment companies such as Beck.

24          Q           Now, directing your attention to  
25          Page 5 of the September 2, 1970 agreement, which is



part of Exhibit "D" in evidence what, if anything, did you do with respect to your account at New Jersey National Bank?

A The account at New Jersey National Bank was kept and that became the central account through which all financial transactions of the company were handled.

Q On or about that time, did you close your account at all other banks?

A Yes, we did with the exception of one account.

Q What account was that?

A The payroll at the First National Bank of Princeton.

Q Did you have some discussion with Mr. Lynch about maintaining such an account?

A Yes, we did.

Q What was that discussion that you had with Mr. Lynch; what was the substance of that?

A Mr. Lynch allowed us to have that account in order to facilitate the payroll requirements of the statute of New Jersey for the employees.

3 Q Did you discuss with Mr. Lynch what  
those statutory requirements were?

4 A Yes, I did.

5 Q What were those statutory require-  
6 ments?

7 A We have to have a local bank with  
8 sufficient funds so that the people can have check  
9 cashing facilities at the place where they work.

10 Q So, other than this one account at  
11 First National Bank of Princeton, all banking  
12 relations thereafter were conducted through the  
13 Jersey National Bank?

14 A That is correct.

15 MR. LEBOW: Your Honor, I would like  
16 to direct your attention to Page 5 of the  
17 September 2, 1970 agreement, which contains  
18 certain language requiring that the debtor  
19 shall conduct all banking of its funds at  
20 and through New Jersey National Bank. That  
21 is found on Page 5 and 5A.

22 THE COURT: Where on Page 5?

23 MR. LEBOW: I believe it's either  
24 on 5 or 5A.

25 MR. ROBINSON: I do not find it on



Page 5, Your Honor.

THE COURT: Yes, I see it. It's next to the last sentence of the top paragraph on Page 5A.

MR. ROBINSON: 5A?

THE COURT: Yes, "ALC shall conduct all banking of its funds at and through New Jersey National Bank until both notes are paid."

Q Now, through this account, Mr. Mobach, were certain payments made to creditors of Applied Logic at that time?

A Yes, indeed.

Q What sort of payments were made to creditors pursuant to the terms of these two agreements, to general creditors?

A The monthly interest rates on amounts we owed; secondly, any payments out of deposits on cash flows.

MR. ROBINSON: I didn't get that.

A In the first place, all interest payments due to creditor parties on the amounts that the company owed them; secondly, all payments pursuant to the recapitalization agreement based on

a positive cash flow of the company.

3 MR. LEBOW: Your Honor, if I may,  
4 without requiring you to read the entire  
5 Exhibit "D" in front of you, perhaps - - and  
6 Mr. Robinson may correct me in the unlikely  
7 event I say anything wrong - - but, the two  
8 agreements require that the account at New  
9 Jersey National Bank be established and that  
10 the debtor pay to the creditor parties listed  
11 in that particular agreement a certain per-  
12 centage of positive cash flow that came into  
13 the company during the period that this agree-  
14 ment was in effect.

15 MR. ROBINSON: I disagree with that  
16 completely.

17 THE COURT: Where is the section of  
18 the instrument, Mr. Lebow?

19 MR. LEBOW: Mr. Mobach will find it  
20 for you, Your Honor, if you give it to him.  
21 I believe it's on Page 10.

22 THE COURT: All right. This speaks  
23 for itself.

24 MR. ROBINSON: If Your Honor please,  
25 that is not what Mr. Lebow just said. The



agreement speaks for itself, I agree, but that is not what Mr. Lebow indicated.

Q Were payments out of positive cash flow made to creditors pursuant to this agreement?

A Yes.

Q Do you remember when or how many payments, approximately, were made to creditors out of positive cash flow?

A Not offhand.

Q But, some payments were made to creditors, I take it?

A Yes, indeed, and a monthly account was given.

Q Now, after these agreements were executed, did you open a new account at New Jersey National Bank?

A No, we did not.

Q Did you have a discussion with Mr. Lynch at or about the time these agreements were executed with respect to how you would conduct all banking at or through New Jersey National Bank and through what particular account?

MR. ROBINSON: If Your Honor please, we are dealing with two agreements, one in



3 September of '70 and the other in Septemb  
4 of 1971.

5 I respectfully request that the  
6 question be phrased in such a way that I  
7 know what year.

8 THE COURT: What one we are dealing  
9 with, that is correct.

10 Q I amend my question to apply at or  
11 about September 2, 1970?

12 A Yes.

13 Q What was that discussion that you  
14 had with Mr. Lynch?

15 A That it was not required to close  
16 the account and set up a new account, that we would  
17 conduct all the business under that account; that  
18 monthly agings of accounts receivables and accounts  
19 payables were to be sent to the bank so that they  
20 could follow the financial processes of the bank.  
21 Monies that were raised were also put in that  
22 account.

23 Q Now, I take it that the September  
24 2, 1971 agreements also required that you raise  
25 certain other funds, is that correct?

A That is correct.



THE COURT: September 1971?

THE WITNESS: 1971.

Q I'm sorry, the 1971 agreement?

A Yes.

Q The funds that you raised pursuant to that requirement were also placed in that account, is that correct?

A That is correct.

Q The agreement called for you to place these funds into certificates of deposit?

A That is not correct.

Q How did the funds get into certificates of deposit if they got into certificates of deposit?

A We had to accumulate the funds in the account to an amount of one hundred thousand dollars before we could purchase a CD. The CD's were purchased since they would derive or would yield interest to the company and interest payments to the creditor parties.

Q What was the amount called upon for you to raise pursuant to the 1971 agreement as new capital for the use of Applied Logic?

A Half a million dollars.



Q Did you and the other principals  
of Applied Logic succeed in raising that required  
half a million dollars?

A Yes.

Q When you collected the money, what  
did you do with it?

A When we collected the money, we did  
not come in one feld-swoop, we accummulated it  
until we had one hundred thousand dollars excess  
in our account before we got a CD.

Q So, when the receipts came in, you  
put them in the account, is that correct?

A That is correct.

Q When you got up to one hundred thou-  
sand dollars in that account, what happened?

A Then in cooperation with the people  
at the bank we put it in CD's.

Q You did that in successive stages  
of one hundred thousand dollars until you got to  
five hundred thousand dollars, is that correct?

A By and large.

MR. ROBINSON: If Your Honor please

THE COURT: Why don't you object be-



fore the answer?

MR. ROBINSON: It wasn't that, Your Honor. I am not objecting to that specific question but I just want to point out to the Court I almost get the impression that Mr. Lebow is testifying.

THE COURT: You mean he is leading?

MR. ROBINSON: He is leading.

THE COURT: Why don't you object at the question?

MR. ROBINSON: That particular question and what we have been getting to so far I have had no particular objection to. But, if we are getting to this further, I just feel - -

THE COURT: Mr. Lebow, I would caution you not to lead your witness.

Q Commencing with September 2, 1970 and thereafter, was any prior approval required by New Jersey National Bank with respect to Applied Logic issuing checks drawn on this account?

A In a general sense, yes. On a particular check by check basis, absolutely not.

Q What was the procedure that was set



up between you and Mr. Lynch if any procedure was set up so the checks would issue?

A The procedure was as follows - - in order for the bank to supervise or monitor the account, they received on a monthly basis an updated accounts receivables and accounts payables summary from the company. This was in detail by account and by name.

Since all the monies were going into the account and flowing out of that one account, they had, therefore, all the ingredients to properly supervise without having to initial collections prior to issuance.

Q From September 2, 1970 while this agreement was in effect, did you furnish monthly statements to Mr. Lynch or someone else at the bank with respect to your accounts payables and accounts receivables?

A Yes.

Q To your knowledge, did New Jersey National Bank review these accounts payables and accounts receivables to see whether the checks corresponded to amounts that should have been paid according to those documents?



MR. ROBINSON: If Your Honor please,  
if he can answer that question - -

THE COURT: He will be a miracle  
man. Can you answer that question?

THE WITNESS: I think so.

THE COURT: Let's see. Go ahead.  
Do you want to heard it again?

THE WITNESS: No, sir, I think I  
remember it.

A On a couple of occasions I personally  
got a call pertaining to a given check that had  
been issued which did not appear on the accounts  
payables because it was a pre-payment and happened  
to be a payment to the same party by the name of  
Webster Todd, Junior.

Q Who called you?

A Mr. Lynch.

Q What did he say to you, if you  
remember?

A He said that there was a check for  
twelve and a half thousand dollars and he was  
wondering who that party was having forgotten,  
obviously, that this was the owner of the land on  
which - -



MR. ROBINSON: If Your Honor please

THE COURT: I think we will strike everything after "having forgotten." I don't think he can testify to the workings of Mr. Lynch's mind.

THE WITNESS: No, he expressed himself that he had forgotten.

THE COURT: You are quoting Mr. Lynch?

THE WITNESS: Yes.

THE COURT: I will overrule your objection.

THE WITNESS: He had forgotten there was that connection with the landlord on the pre-payment. The minute I mentioned it he remembered it so there was no further questioning.

Q Do you know whether the check was honored by the bank at the time this telephone conversation took place?

A Yes, it was honored.

Q Was it honored after the telephone conversation or before?



1 A That I could not testify to.

2 Q But, after the telephone conversation  
3 I take it there was no problem with the payment of  
4 the check?  
5

6 A That is correct.

7 Q This is what particular location that  
8 you remember that Mr. Lynch called you. Do you  
9 remem ber any other occasions that he called you  
10 with respect to checks drawn on this account?

11 A As reported to me by my accounting  
12 department - -

13 THE COURT: By your what?

14 THE WITNESS: By my accounting de-  
15 partment.

16 THE COURT: Were you called by Mr.  
17 Lynch?

18 THE WITNESS: Not as I recall.

19 THE COURT: You were not spoken  
20 to directly by Mr. Lynch?

21 THE WITNESS: On other occasions, no,  
22 sir.

23 Q I take it that during the course  
24 of your term as president of Applied Logic Corpor-  
25 ation and chief executive officer you had certain

other employees under your supervision that dealt with accounts, is that correct?

A That is correct.

Q Did any of these other employees report to you about any other communications from the bank with respect to checks?

MR. ROBINSON: If Your Honor please, before he answers, it's obviously again getting into what I clearly consider hearsay.

THE COURT: But, the answer to that question would not be hearsay.

MR. ROBINSON: I agree, Your Honor, but I said it was getting into it.

THE COURT: If Mr. Lebow gets us there, we will rule at that time. Presently I will allow the question.

A On various occasions my financial vice-president reported to me conversations that he had with personnel at the bank regarding certain accounts, regarding certain payables.

Q Did any of these reports contain inquiries from the bank concerning what certain checks were for?

MR. ROBINSON: I object to that, Your



3 Honor, because, obviously, that's going to  
4 get to hearsay.

5 THE COURT: Yes, unless it's within  
6 one of the exceptions that I might take.

7 MR. LEBOW: Well, Your Honor, I think  
8 these very conversations between the parties  
9 that refer to this particular lawsuit - -

10 THE COURT: As to the truth of the  
11 matters asserted, isn't it hearsay?

12 MR. LEBOW: Well, I don't think that  
13 the hearsay objection applies because if one  
14 officer - - if the plaintiff spoke to another  
15 officer of the defendant about a certain sub-  
16 ject, I don't see any reason why that is hear-  
17 say. The parties are present. Both of them  
18 are corporations.

19 THE COURT: But, Mr. Mobach did not  
20 speak.

21 MR. LEBOW: That is true. He did  
22 speak, however, with one of his employees  
23 under his supervision.

24 Your Honor, I don't think this is  
25 a major point. I suggest you reserve decision.

THE COURT: Just a minute. Well, I

3 frankly don't find this within any of the  
4 exceptions to the hearsay rule under Federal  
5 Rule of evidence 804 or under any of the ex-  
6 ceptions to 803, Mr. Lebow, and I take it  
7 our trial is now governed by these Federal  
8 Rules of evidence, which became effective last  
9 July.

9 MR. LEBOW: I agree with the latter  
10 part, Your Honor, but ever since these rules  
11 became effective this is the first hearsay  
12 ruling I have heard sustained. Maybe it is  
13 well taken, though.

14 THE COURT: I will sustain unless  
15 you can make the kind of showing which Rule  
16 804(b)(5) suggests, a statement not specifi-  
17 cally covered by the foregoing exception, but  
18 having equivalent circumstantial guarantee  
19 of trustworthiness if the Court determines  
20 that (A) the statement offered as evidence  
21 is of material fact (B) that the statement is  
22 more probative on the point for which offered  
23 than any other evidence which the proponent  
24 can procure and (C) that the general interests  
25 of justice would be served by admitting it.



But, you have not given your adversary sufficiently in advance of trial an opportunity to meet it so I am going to adhere to my prior ruling.

Q Mr. Mobach, did you have various conversations with respect to your banking relationships with New Jersey National Bank or other people on your staff?

A Yes.

Q Was one of these persons with whom you had these conversations your financial vice-president?

A Yes, indeed.

Q Did he tell you that from time to time he received telephone calls - -

MR. ROBINSON: I object, Your Honor. I respectfully would like to see his financial officer and be in a position to - -

THE WITNESS: If I may - -

THE COURT: Just wait.

MR. ROBINSON: - - be in a position to, very frankly, hear from him what he said and be in a position to cross-examine him. I am objecting on the basis of hearsay.

THE WITNESS: Your Honor, I could testify.

THE COURT: Well, I don't know, Mr. Lebow. Has an effort been made to bring that former financial vice-president in?

MR. LEBOW: May I ask that of Mr. Mobach? I think he will tell you himself.

THE COURT: What is this individual's name we are talking about?

THE WITNESS: Doctor Ogelsby.

THE COURT: Is he available?

THE WITNESS: I don't know whether he is. He is no longer employed by the company.

THE COURT: Have you made an effort to get him? Have you tried to subpoena him? Have you written to him?

THE WITNESS: In this particular regard, no because what I was about to testify to was followed up by a personal phone call by me to Mr. Lynch.

THE COURT: We will get to that. I think I am going to sustain the objection again. I find it not within any of the excep-



tions of the hearsay rule where the declarant is unavailable.

MR. LEBOW: All right.

Q Did you have any further conversations with Mr. Lynch with respect to the procedures on paying checks issued on this account?

A I distinctly recall one on a check that was received and - -

THE COURT: He asked you about conversations, first, with Mr. Lynch.

THE WITNESS: That's right.

THE COURT: Did you have a conversation with Mr. Lynch?

THE WITNESS: That is correct, sir.

THE COURT: When was it; who called who; or did you meet, or what? Give me the circumstances surrounding your oral communication with him?

THE WITNESS: I believe this was early in 1973. I received a call from Mr. Lynch pertaining to a check that was to be cleared through the account of some thirty-five thousand dollars which he felt should be set off or actually used as a payment on

1 a payment on the one hundred thousand dollars  
2 which the company had a lien on equipment.

3  
4 THE COURT: You mean as a payment on  
5 monies due for which the bank had a lien on  
6 equipment?

7 THE WITNESS: That is correct, sir.

8 THE COURT: By "the company," you  
9 mean the bank?

10 THE WITNESS: The bank.

11 Q What was the substance of that con-  
12 versation?

13 A The substance of that conversation

14 - -

15 THE COURT: He called you?

16 THE WITNESS: He called me.

17 THE COURT: All right.

18 THE WITNESS: And told me he had  
19 not deposited the thirty-five thousand dollars  
20 in our account, that he felt this should go  
21 as a reduction against the one hundred thou-  
22 sand dollar loan the bank had given Applied  
23 Logic for which they had a lien on unencumber-  
24 ed assets.

25 Q What, if anything, became of that



attempt to deposit that into the account?

3           A           At the time of the next board meet-  
4           ing we had a further discussion - - the money had  
5           not been deposited - - we had a discussion with other  
6           members of the board and we acceded to Mr. Lynch's  
7           request to reduce the one hundred thousand dollar  
8           loan by that thirty-five thousand dollars.

9                   MR. ROBINSON: If Your Honor please,  
10           may we pinpoint that board meeting so that we  
11           might have a reference to it?

12                   THE COURT: Yes, in time.

13                   THE WITNESS: I don't remember  
14           exactly when it was. That is why I said I  
15           believe it was in the beginning of 1973.

16                   The check was issued by Grumman.

17                   THE COURT: Grumman?

18                   THE WITNESS: Yes.

19           Q           After September 2, 1970, Mr. Mobach,  
20           what information did you periodically furnish to  
21           Mr. Lynch, if any?

22           A           As I testified before, aging reports  
23           on receivables and payables monthly. Secondly,  
24           total financial reports on the company every time  
25           we had a board meeting.

Q Did Mr. Lynch attend those board meetings?

A Generally yes but probably with one or two exceptions of all the board meetings that were held while he was a member of the board.

Q Directing your attention to September 15th, 1971, I take it you have testified before that on that date you entered into the so-called recapitalization agreement with the same creditors including the plaintiff, is that correct?

A That is correct.

Q Now, did you still continue to furnish the information that you just testified about to Mr. Lynch?

A Yes, we did.

Q I believe you also testified that you were required under that agreement to raise certain working capital, is that correct?

A That is correct.

Q And, I believe you have also testified that working capital was deposited into this account?

A Yes.

Q Now, who made the decision to convert this working capital into certificates of deposit, if you know?



1  
2 A I think there was a joint effort  
3 between Mr. Lynch and myself.

4 MR. ROBINSON: If Your Honor please,  
5 I keep hearing the expression "I think," and  
6 I notice that Mr. Mobach in reference to what  
7 I consider to be rather an important question  
8 uses that expression.

9 I respectfully submit either he knows  
10 or doesn't know.

11 THE COURT: Supposing he said "I  
12 believe." Would that be all right? The objec-  
13 tion is overruled.

14 Mr. Rayvid, let's have the question  
15 read back.

16 (At this time, the reporter read  
17 back the last question.)

18 A Mr. Lynch and I had a discussion on  
19 the subject. In order to keep the incoming monies  
20 to the highest extent possible rather than keep it  
21 in the account where it wouldn't drawn any interest,  
22 we both agreed that it would be best to put the avail-  
23 able money into certificates of deposit or CD's.

24 Q Where then were those certificates  
25 of deposit placed, with what depository?

A They were placed through the bank.

Q Well, then, these were New Jersey National Bank's certificates of deposit?

A Not necessarily. They could be placements by the bank into certificates of deposit of other companies.

Q Did that ever take place?

A Yes, it did.

Q What placements were made, if you remember?

A I don't remember the names of the companies that the certificates of deposit were taken out on. What was of prime importance to Applied Logic Corporation was to decide which interest rate upon information which was issued by the bank would be the highest - - thirty days, sixty days, ninety days - - then such a certificate of deposit would run out and the money would be put back into out account including the interest derived from it and a new certificate of deposit would be issued.

Q Who made the decision with respect to which certificates of deposit to buy?

A This was done by the bank.

Q Did they make certain recommendations



1 to you or say something to you in advance of making  
2 the placement?

3 A Pertinent to the rate of interest  
4 and the duration of the certificates, yes.

5 Q Now, did there come a time when you  
6 wished to place the certificates of deposits in some  
7 other bank or some other form?

8 A Yes, when I learned from Chase  
9 Manhattan Bank that we could get one percent more  
10 interest there I discussed with Mr. Lynch to put  
11 the monies into certificates of deposit with that  
12 bank so it would yield more.

13 However, he told me that he would  
14 hold me to the agreement and that the monies could  
15 only be placed through New Jersey National Bank - -

16 MR. ROBINSON: If Your Honor please,  
17 I don't really want to interrupt, but just  
18 so I can orient myself can we get some testi-  
19 money in regard to dates so that we can see  
20 in relationship to what agreement and what we  
21 are actually talking about?

22 THE COURT: Yes.

23 MR. LEBOW: I adopt Mr. Robinson's  
24 suggestion.  
25

Q When did this take place?

A I believe in 1973.

Q Do you remember approximately when  
in 1973?

A Early in the year.

Q Did the bank or Mr. Lynch adopt your  
suggestion with respect to placing these certificates  
of deposit at Chase Manhattan Bank?

A No, he did not.

Q What, if anything, happened to the  
certificates of deposit instead?

A We continued to take out certificates  
of deposit at New Jersey National Bank.

Q Now, the total amount of these cer-  
tificates of deposit at the maximum were how much  
at the highest point?

A About five hundred thousand dollars  
or six hundred thousand dollars.

Q Now, directing your attention to  
December of 1974, how much were in the certificates  
of deposit at that time?

A A total of three hundred thousand  
dollars.

Q Now, how did the certificates of



deposit get reduced from five hundred thousand dollars to three hundred thousand dollars in the interim?

A Because the company needed some of that as working capital.

Q What procedure did you go through to get these certificates of deposit reduced and the amount turned over between the five hundred thousand dollars and three hundred thousand dollars? How did that work?

A A verbal request of the financial vice-president of Applied Logic Corporation to the bank to not reinvest the sum of money into a certificate of deposit.

Q What, if anything, did the bank do in response to that request?

A Usually agreed to it.

Q Do you know what procedure the bank went through in order to give it?

A Internal procedures, no.

Q But, a request would be made to the bank to convert some of these funds to working capital?

MR. ROBINSON: If Your Honor please,

again I think Mr. Lebow is testifying and I respectfully submit he is leading.

THE COURT: I think you are leading.

MR. LEBOW: I think he is right and I withdraw the question.

Q Now, at the time of the setoff which is mentioned in the counterclaim, the balance that was set off by the bank was two hundred forty-three thousand seven hundred seventy-six dollars and eleven cents.

Now, was the setoff made from the certificates of deposit?

A Yes, it was.

Q If there were three hundred thousand dollars in certificates of deposit at the bank why was only two hundred forty-three thousand seven hundred seventy-six dollars and eleven cents set off?

A Because sixty thousand dollars of it was pledged to New Jersey State.

THE COURT: As a lien?

THE WITNESS: That was sixty thousand dollars, Your Honor, that was set aside as a lien.



THE COURT: For taxes?

THE WITNESS: For the sales tax.

THE COURT: The sovereign?

THE WITNESS: That is right.

Q How did the sixty thousand dollars get set aside from the three hundred thousand dollars, how did that happen?

A Originally it happened that a total certificate of deposit of one hundred thousand dollars was used for it. In the setoff sixty thousand dollars was kept in a CD and forty thousand dollars was set off by the bank in December of 1974.

Q Whose decision was it to set aside a separate certificate of deposit for the New Jersey sales tax lien? Did you tell the bank to set off a specific certificate of deposit and segregate it?

A This was a recommendation made by the bank on my request how best to handle it, since the company would have to pay exorbitant prices for a bond and at that time we were trying to figure out the best possible way to satisfy the State of New Jersey in their requirements and

to do it at a minimum cost level for Applied Logic Corporation.

Q Did you have discussions with Mr. Lynch about this?

A Yes, I did.

Q What was the substance of those discussions? Who said what to whom, in substance?

A I don't specifically recall verbatim.

Q No, the substance. What was said by each party but in substance?

A It was that Mr. Lynch figured out a way to do it and it was discussed with legal counsel, Mr. Larry Herr (phonetics) at that time and he saw no problem in it and that is why the way we handled it was with the bond taken out against the guarantees by New Jersey National Bank which a lien was put on sixty thousand dollars.

Q So that in December of 1974 the balance remaining in the certificates of deposit except for the amount set off was segregated to satisfy the New Jersey sales tax lien of how much?

A It was the amount that you mentioned before.

Q Namely, two hundred forty-three



thousand seven hundred seventy-six dollars and eleven cents?

A Yes.

Q Now, directing your attention to in or about December of 1974 did you receive the document marked Exhibit "A" in evidence from New Jersey National Bank?

A Yes, we did.

Q Did you have any discussions with Mr. Lynch of the bank prior to your receiving these documents?

A I don't recall having had any.

Q Did there come a time when Mr. Lynch resigned from the board of directors?

A Yes.

Q Do you remember when that was?

A July 2nd of 1974.

Q Now, did he state to you any reason for his resignation?

A No. The letter was very brief just indicating that he decided to resign.

Q Did you receive any letter accelerating any debt due to New Jersey National Bank?

A A couple of days later.

Q What was the substance of that letter?

A The substance of that letter was that the bank had decided to accelerate the debt although no financial report had been issued yet. That decision was based on the assumption we would not have met - -

MR. ROBINSON: If Your Honor please

- -

THE COURT: That's right, you cannot testify to his assumption.

THE WITNESS: It was inside information that was given. It was based on information that was issued at the board of directors' meeting of Applied Logic Corporation at which I was present.

Q What took place at that board meeting?

MR. ROBINSON: When was it?

THE COURT: When was it?

A That board meeting must have been in May or June of 1974.

Q Was Mr. Lynch present?

A Yes.

Q What, if anything, happened at that meeting?



3           A       At that meeting I indicated to the  
4 board it was highly questionable the company would  
5 meet its positive cash flow requirements of three  
6 hundred thousand dollars by June 30th of 1974  
7 which was a requirement according to the recapitalization agreement of September 15, 1971.

8                       We had similar discussions at the  
9 board meeting in April which Mr. Lynch suggested  
10 in the board meeting, in my presence, to obtain a  
11 waiver so that no singular creditor would accelerate his debt to the company. Pursuant to that  
12 meeting in April Mr. Lynch, another board member  
13 and myself became an ad hoc committee to discuss  
14 possibilities of avoiding a potential disaster that  
15 would have been facing us June 30th of 1974, and  
16 we had many discussions, at least four or five,  
17 on how to go about this.

18           Q       What was the result of the efforts  
19 of that committee?  
20

21           A       That on June 14th, prior to the June  
22 30th deadline, I was to call a meeting with the  
23 creditor parties to the agreement of September  
24 15, 1971 to see whether we could finalize the  
25 solution for Applied Logic Corporation. That

meeting did not take place. Instead, the creditors met among themselves and did not come to the premises of Applied Logic Corporation.

Upon conclusion of that meeting two creditor representatives who were also members of the board of directors of Applied Logic Corporation came in and reported to me - -

MR. ROBINSON: I object, again, to the hearsay "reported to him." I think he is ready to tell us what the report was.

THE COURT: Let me hear what they reported there, then I will rule.

A And reported to me that the creditors group was willing to consider converting the debt into an equity position which would give the creditors as a group - - and these are creditor members of the recapitalization - - to the extent of eighty percent of the total equity in the company.

THE COURT: Do you object?

MR. ROBINSON: I have no objection to that, Your Honor.

THE COURT: Neither have I.

(At this time, a short recess was taken and all parties subsequently returned.)



3 THE COURT: The Court, as I understand  
4 counsel, will not be barred from making  
5 reference if necessary in implementation of  
6 Mr. Mobach's direct testimony today, that  
7 testimony which he gave before Judge Herzog  
8 last year?

9 MR. LEBOW: That is correct.

10 THE COURT: And insofar as credibility  
11 is concerned then, of course, that is my  
12 province based upon my own observations today  
13 of Mr. Mobach's demeanor. But, I may use  
14 what he said before just as implementation as  
15 needed and, of course, you fellows can use it  
16 if there is anything inconsistent or anything  
17 else he said.

18 MR. ROBINSON: Yes.

19 THE COURT: Go ahead, Mr. Lebow.

20 Q Mr. Mobach, is there a balance in the  
21 account on which you were testifying at the time  
22 the petition was filed in the court on March 27,  
23 1975?

24 A Yes, I believe the amount of eighteen  
25 hundred dollars to two thousand dollars.

Q Now, I show you Defendants' Exhibit

3 "B" for identification and I ask you if you received that statement in April of 1975?

4 A We received this on or about April  
5 16th or 17th of 1975. This is a statement dated  
6 April 3, 1975.

7 Q What does it indicate that the balance  
8 in the account was?

9 A Indicating a balance of sixteen hundred  
10 eighty-two dollars and ninety-eight cents.

11 Q Did the bank claim a right of setoff  
12 with respect to that money?

13 A Yes.

14 Q And, I take it that that money has not  
15 been returned to you?

16 A It has not.

17 Q And, I take it that the two hundred  
18 forty-three thousand seven hundred seventy-six  
19 dollars and eleven cents which is the balance of  
20 the principal and accrued interest on the certificates of deposit has not been returned to you?

21 A Correct.

22 Q Now, referring to the top part - -

23 THE COURT: State the exhibit to which  
24 you just made reference since it's  
25



3 already been marked before Judge Herzog. Let  
4 the record show this is Defendant's Exhibit  
5 "A" in evidence.

6 MR. LEBOW: That refers to the two  
7 hundred forty-three thousand dollars, Your  
8 Honor.

9 THE COURT: Where is the one you just  
10 read from for the sixteen hundred dollars  
11 and change?

12 THE WITNESS: That's this one (indi-  
13 cating.)

14 THE COURT: I'm sorry, Mr. Rayvid,  
15 that's Exhibit "B".

16 Q Now, referring to the top part of  
17 Exhibit "B", did you receive a separate memorandum  
18 from New Jersey National Bank which appears at the  
19 top part of Exhibit "B"?

20 A I don't understand your question on  
21 the separate memorandum.

22 Q Did you receive this document marked  
23 "Debit Bank Copy"?

24 A Yes.

25 Q Does that indicate that a charge was  
made to your account?

3 A It indicates that the account was  
discontinued and brought down to a zero balance.

4 THE COURT: Closed?

5 THE WITNESS: Yes.

6 THE COURT: Or a zero balance. All  
7 right, I will take it that way.

8 Q Now, directing your attention again  
9 to April of 1975 did you receive this document  
10 from New Jersey National Bank?

11 A Yes, we did.

12 Q Now, prior to that time had - -

13 MR. ROBINSON: If Your Honor please,  
14 so that we may again know what we are referring  
15 to that's Exhibit "C"?

16 MR. LEBOW: That is Exhibit "C".

17 MR. ROBINSON: Thank you.

18 Q - - was a charge made against you or  
19 against the certificates of deposit as evidenced by  
20 this particular exhibit?

21 A This exhibit indicates that a  
22 cashier's check dated March 30, 1975 in the amount  
23 of eight hundred thirty dollars and sixty-two  
24 cents derived from a certificate of deposit identifying  
25 its number was further set off against the



loan in the name of Applied Logic Corporation  
without going through any account, company account.

Q The proceeds of that particular pay-  
men<sup>e</sup> consisted of what?

A That consisted of interest derived  
from the certificate of deposit that before this  
occasion was usually put into our corporate account  
at New Jersey National Bank.

Q Now, directing your attention to on  
or about April 1, 1976, immediately prior to April  
1, 1976, was there a certificate of deposit in the  
principal amount of sixty thousand dollars main-  
tained to secure your obligation to New Jersey on  
the sales tax?

A Yes, there was.

MR. LEBOW: I believe the Court can  
take judicial notice of a settlement of our  
difficulties with the New Jersey State Sales  
Tax Bureau was entered into about that time  
and a payment of approximately thirty-three  
thousand dollars was called for in a stipula-  
tion of settlement to be made to the State of  
New Jersey on account of sales tax.

THE COURT: Yes, there are records

that have been entered on my dockets pursuant to proceedings in which I took part.

MR. LEBOW: Lastly, Your Honor, and I don't believe I have to ask this of Mr. Mobach, because I believe it's conceded, on or about April 1976 the bank claimed the right of setoff with respect to the balance in that certificate of twenty-six thousand ninety-five dollars and seventy-six cents together with interest of twenty-nine hundred fifty dollars and seven cents.

Q Is that essentially correct, Mr.

Mobach?

A Correct.

MR. LEBOW: I have no further questions.

THE COURT: I still don't have a copy of your answer or reply. I guess I will track it down.

MR. ROBINSON: If Your Honor please

- -

THE COURT: This letter is Mr. Lynch's copy. If I don't track it down, I am going to docket this as an original.



3 May I ask a question before we take  
4 a short break, gentlemen.

5 In your prayer for relief on your  
6 counterclaims, Mr. Lebow, you suggest that  
7 if the Court concludes the plaintiff had a  
8 valid lien, the amount in dispute on these  
9 counterclaims, assuming you could sustain  
10 your case either under 60 or 67d, should be  
11 applied to the security. What would be  
12 freed up then?

13 MR. LEBOW: Your Honor, we concede  
14 that the amount due in the complaint itself  
15 of approximately fifty-six thousand dollars  
16 is due and owing to the bank. If we recover  
17 the money we have demanded or any portion of  
18 it under the counterclaims, we believe that  
19 that should be offset by the bank against the  
20 obligation on the secured loans because they  
21 had an encumbered lien on all of our assets.

22 THE COURT: If you prevail down the  
23 line. If, and we are talking about two hundred  
24 eighty thousand dollars, give or take a nickel  
25 - -

MR. LEBOW: That is correct - -

3 THE COURT: You prevail down the  
4 line and you are entitled to affirmative  
5 judgment, the amount of your affirmative  
6 judgment would be reduced by the amount con-  
7 cededly due and owing to the bank predicated  
8 upon a valid security interest which you do  
9 not dispute?

10 MR. LEBOW: That is correct.

11 THE COURT: I just want to be sure I  
12 didn't read your papers the wrong way.  
13 Supposing we recess to one-thirty. There is  
14 no point in beginning your cross-examination  
15 now, Mr. Robinson.

16 We will resume here at one-thirty.  
17 You can leave all your papers where they are.  
18 I will lock the door and allow you to come in  
19 through the main entrance. Figure about  
20 forty-five minutes.

21 (At this time a lunch recess was taken  
22 and all parties subsequently returned.)  
23  
24  
25



1 Copies Received

Date December 23, 1977

Firm Condit Brothers

By Condit Bros

R